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Allied Powers (1919-)

REPARATION COMMISSION.

XIX.

OFFICIAL DOCUMENTS.

**Report of the Agent-General for Reparation
Payments (December 22, 1928).**



LONDON:

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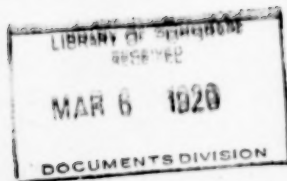
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REPORT
OF THE
AGENT GENERAL
FOR
REPARATION PAYMENTS

December 22, 1928

BERLIN

XIX



20.2.3/9/29

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Berlin, December 22, 1928.

TO THE REPARATION COMMISSION.

Sirs:

I have the honour to present herewith a Report, as Agent General for Reparation Payments, covering the execution of the Experts' Plan through the fourth Annuity year. This Report, in accordance with the usual practice, reviews the course of reparation payments and transfers during the year, and considers the development of the German budget and of credit conditions and the currency, in relation to the operation of the Plan as a whole and from the broader standpoint of the reconstruction of the German economy. The fourth Annuity year brought to an end the so-called "transition period", and the execution of the Plan has now entered upon the first standard Annuity year. The present Report, therefore, affords the opportunity for a general survey of the results that have been accomplished under the Plan during the transition period, viewed not merely against the background of four years ago, when the reconstruction of Germany was beginning, but also in their bearing on the position of the German economy at the opening of the fifth or standard Annuity year.

The fourth Annuity payable by Germany under the terms of the Plan amounted to 1,750 million gold marks, as compared with the Annuity of 1,500 millions that was paid in the previous year and the standard Annuity of 2,500 million gold marks that is payable in the fifth Annuity year, which began September 1, 1928. With the exception of the contribution from the German budget, which increases by 750 millions in the fifth year, all the payments that go to make up the reparation Annuity were at their standard levels in the fourth Annuity year, and they included for the first time the prescribed sums for amortization of the German Railway bonds and the German industrial debentures, which has now begun at the standard rate.

The Experts' Plan has continued to operate successfully in the field of reparation payments and transfers. As in previous years, Germany has made all the payments required by the Plan, and has made them loyally and punctually. The Transfer Committee, on its part, has made transfers regularly and currently during the year, without disturbance to the German exchange, to an aggregate amount substantially equivalent to the year's receipts. Deliveries in kind have considerably increased, in harmony with the increased shares of the creditor Powers; and at the same time there has been a continuance of the tendency noted in former Reports, toward the transfer of an increasing proportion of the Annuity in foreign currencies. During the fourth Annuity year, the transfers in the various forms of foreign currency payments amounted in the aggregate

to about 943 million gold marks, or more than 54 per cent of the total transfers, while transfers by reichsmark payments within Germany, chiefly for deliveries in kind, amounted to 796 millions, or about 46 per cent of the total transfers. During the year, moreover, the specific securities provided by the Plan have continued to develop in a satisfactory way. The assigned revenues are yielding, during the present financial year as in the previous one, a total return which provides a margin of considerably more than 100 per cent over the standard budget contribution of 1,250 million gold marks. And the transport tax is producing each year the standard contribution of 290 million gold marks, with an increasing margin of safety. The funds necessary to cover the annual service of the industrial charge at the full amount are also being realized regularly through the Bank for Industrial Debentures; and during the fourth Annuity year, though the industrial charge itself stood for the first time at the standard level, it proved possible for the Government, owing presumably to an increase in the working assets of industry, to make a material reduction in the rate of assessment levied to produce the charge. The German Railway Company is in a strong financial position, owing partly to the recent increase in its tariffs and also to the beginnings of improved financial control; and the development of its business as a whole amply confirms the views expressed in the previous Report, as to the capacity of the Railway Company to carry the full annual charge for the service of its reparation bonds, provided that it follows a prudent financial policy and that the rights of supervision and control reserved to the German Government are not exercised in such a way as to impair the Company's ability to earn a fair and reasonable return on its capital.

The German budget is still under the influence of the tendencies toward over-spending and over-borrowing to which attention was called in the Memorandum of October 20, 1927, principally the increasing expenditures resulting from the sweeping increases in official salaries and pensions which were initiated in September, 1927, and the continuing drain of the financial settlement with the States and communes, which automatically deprives the Reich of the principal share in the improved revenues from the income and corporation income taxes. The cash position of the Reich is also under pressure as a result of the overhanging burden of extraordinary expenditures from previous years, which were originally intended to be financed by borrowing but which have had to be met in large part out of working funds now required for current purposes. The States and communes, on their part, while drawing from the Reich this year under the present financial settlement about 600 million reichsmarks more than in 1926-27, are still generally budgeting for deficits and calling on the Reich for larger and larger payments to meet their own constantly rising expenditures. The problem of the financial settlement, in fact, is pressing more and more for solution, in order to maintain the stability of the budget of the Reich; and when the present settlement expires on March 31, 1929, there will be a fresh opportunity, in the interests of the country as a whole, to provide a basis of settlement which, while recognizing the legitimate needs of the

States and communes, will assure to the Reich the necessary means to meet its own requirements and a proper control over the revenues which it has the responsibility of collecting. The Experts, in April, 1924, referred to the financial relations between the Reich and the States and communes as the "existing hole in the budget", which "must be plugged"; and it is clear now that if the German Government, after more than four years' delay, will take the practical steps in this direction that are necessary for the protection of its own budget, it can by this means alone save hundreds of millions of reichsmarks of which it is now deprived by arbitrary transfers to the States and communes and at the same time bring about, for the first time since stabilization, a regime of orderly budget-making on the part of the States and communes themselves.

The budget situation of the Reich, and also of the States and communes, is presented in some detail in the appropriate chapter of this Report, on the basis of the latest figures which have become available, and it is unnecessary at this point to do more than indicate the predominant tendencies. The necessity of a balanced budget is not in question, and there is no doubt that the material for budget equilibrium exists. The revenues of the Reich continue to show a favorable development, and the most encouraging feature of the whole four years from the standpoint of the public finances is the great productivity of the revenues, notwithstanding the important reductions in taxation that have already been made. The practical problem, however, is to keep the Government's expenditures within the limits of the available revenues, and the time is approaching when more vigorous measures in this direction will have to be taken. The Finance Minister of the Reich has recognized, in recent statements to the Reichstag, the necessity of important reductions in expenditure in the coming financial year. He has also suggested the possibility of certain increases in taxation in order to bring the budget as a whole into balance. Undoubtedly, there are reserve sources of taxation still available and, if need be, recourse could be had to some of them. Undoubtedly, also, there are opportunities for substantial reductions in expenditures, not only on the part of the Reich itself but also in the reform of the financial settlement with the States and communes. Whether and to what extent increased taxation may prove to be necessary will depend upon the practical progress that can be made in reducing public expenditures and in working out the various internal adjustments that have to be made. But there is nothing in the budget situation which will not yield to the application of sound principles of budget-making, and it is primarily an internal problem for the responsible authorities to take the necessary measures for bringing the budget into proper order. The great productivity of the revenues, even after far-reaching tax reductions, has established beyond doubt the essential basis for the sound development of the budget of the Reich, and it remains clear, as stated in the previous Report, that no question can fairly arise, in the light of the practical experience thus far, as to the ability of the budget of the Reich to provide the full amount of its standard contribution under the Plan.

The Plan has realized the other main object for which the Experts were originally appointed, the stabilization of the German

currency. The reichsmark continues to satisfy all the requirements of stability, as it has at all times since the Experts' Plan went into operation. The gold reserves of the Reichsbank now stand at the highest point ever reached, and for the greater part of the past year the reichsmark has been one of the strongest currencies in the world, from the standpoint of the foreign exchanges. There has been a further growth in the volume of credit, but the supply from both domestic and foreign sources is not yet sufficient to balance the demand except at high rates of interest. It is encouraging, however, to observe that the rise in interest rates which took place during the autumn in the principal foreign markets has not been reflected in any further rise of interest rates in Germany. On the contrary, except as the year-end settlements began to exert their usual pressure, German money conditions in the past few months have tended to become somewhat easier. The demands for long-term credit from the public authorities are still overtaxing the market, and they have rendered more difficult the problem of supplying funds with which to make up arrears of construction and to meet the special requirements of agriculture. Borrowing abroad during the last six months has taken the form chiefly of short-term loans, the proceeds of which have come to Germany in considerable part in the form of gold.

More broadly, it appears that the tendencies toward over-expansion which had developed during 1927 have now been checked, and that in many departments of German economic life normal forces have again reasserted themselves. The fluctuations which were characteristic of the period up to the spring of 1928, in the field of business activity, in foreign trade, in commodity prices and in economic conditions generally, have much diminished in extent and frequency during the past six months, and German production and trade, as well as credit conditions, have taken on an aspect of greater steadiness than at any time since the war. All of this reflects the broader basis upon which German business as a whole is now being conducted.

German foreign trade has made marked progress toward reaching a position of stability and balance. The margin by which imports have exceeded exports has gradually narrowed during the past year, and in September, 1928, the two were in substantial equilibrium, for the first time since 1926. To some extent this improvement was due to a decline in imports, but of greater importance in the long run was the further growth of exports which have reached the largest dimensions since stabilization. Thus exports and imports came into equilibrium in September, 1928, at a level of around 1,100 million reichsmarks, as compared with the average level of a little more than 800 millions at which equilibrium was maintained in 1926. The October figures, owing to changes in the method of reporting which became effective on the first of the month, provide no basis for comparison, and no conclusions can be drawn from them.

German business conditions generally appear to have righted themselves on a relatively high level of activity. A year ago, it will be recalled, German business was in the midst of a process of expansion which threatened to result in over-production in certain

of the principal industries. This expansion derived a special stimulation from the very free use of credit, and from the spending and borrowing policies of the public authorities. Prices were rising, and these in turn called for wage increases which in many cases were promptly offset by further price increases. As the year 1928 comes to a close, it appears that this over-expansion has been checked before it reached dangerous proportions, and that a condition of relative stability has now been attained. The volume of industrial production, after the moderate recession which took place early in the year, has proceeded as a whole on the general level maintained in the early part of 1927, a period already of very substantial output. Commodity prices have become relatively stable. The general volume of consumption appears to have remained during 1928 at or about the high level of the year before, giving an impressive indication of the improved standard of living among the great mass of the German population.

Great as the progress of Germany has been during the last four years it is not to be supposed that she has yet made up for the values destroyed in the war or for the values which would have been produced had there been no war. But it should always be remembered that present dislocations and difficulties are not confined to Germany. The work of paying for the war even ten years after its conclusion remains a heavy task for all the countries which participated in it. Of all the former belligerents not one has yet freed itself from the debts and burdens left over from the war, and all of them, though in different degrees, have suffered from its inflationary consequences. Moreover, the reconstruction of Germany, as the Experts said in their Report, is not an end in itself but is a part of the larger problem of the reconstruction of Europe. Since 1924, when stabilization was achieved and the execution of the Experts' Plan began, Germany's reconstruction has at least kept pace with the reconstruction of Europe as a whole, and it has played an essential part in the general process of European reconstruction.

The developments which have thus been summarized are discussed at length in the following pages, not merely in relation to the events of the fourth Annuity year but also against the background of four years ago, when the reconstruction of the German economy was beginning.

I. The Administration of the Annuity.

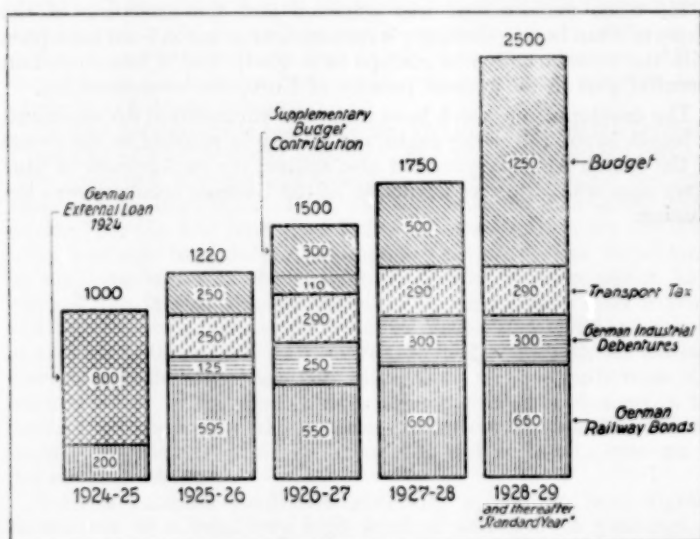
The execution of the Plan, as expressed in reparation payments and transfers, has proceeded normally throughout the fourth Annuity year. As in previous years, Germany has made loyally and punctually the payments required by the terms of the Plan. Deliveries and payments for the benefit of the creditor Powers have also been made regularly and in increasing volume, under the auspices of the Transfer Committee, without interfering with the stability of the German exchange.

a. The Payment of Reparations by Germany.

Germany paid during the period of the fourth Annuity year, extending from September 1, 1927, to August 31, 1928, a total of 1,745,826,000 gold marks, of which 1,670,826,000 gold marks were on account of the fourth Annuity, while 75,000,000 gold marks represented payments in completion of the third Annuity which did not fall due until September, 1927.

1. Composition of the Payments.

The Annuities payable by Germany in the successive years of the Plan are shown graphically in the table which is attached to this Report as Exhibit I. The progressive increases in the Annuity, and the changes in its composition, from the first to the fifth or standard year, are also illustrated in the following diagram.



Composition of the Annuities.
(In millions of gold marks)

The fourth Annuity under the Plan amounted to a total of 1,750 million gold marks, made up as follows:

	Gold Marks
Contribution from the German budget.....	500,000,000
Transport tax ..	290,000,000
Interest and amortization on the German Railway bonds	660,000,000
Interest and amortization on the German industrial debentures.....	300,000,000
Total...	1,750,000,000

The fourth Annuity, in other words, involved an increase of 250 million gold marks as compared with the previous year. This increase, it will be observed, was distributed between the contribution from the German budget, which increased from 410 to 500 millions; the service of the German Railway bonds, which increased from 550 to 660 millions; and the service of the German industrial debentures, which increased from 250 to 300 millions. In the fourth Annuity year, the contributions from the transport tax, and from the service of the Railway bonds and the industrial debentures, were all at their standard levels; and the service of the Railway bonds and the industrial debentures included for the first time the additional 1 per cent that is provided for purposes of amortization.

The Annuity payable by Germany increases by a further 750 million gold marks in the fifth year, but this increase falls entirely on the contribution from the German budget which rises from 500 million gold marks in the fourth Annuity year to 1,250 million gold marks in the fifth Annuity year. The Annuity reaches its standard amount in the fifth year, and thereafter is subject to further modification only as it may be increased through the application of the index of prosperity, or as it may be increased or decreased in order to take account of changes in the general purchasing power of gold.

2. The Payment of the Fourth Annuity.

Germany made payment in full of the fourth Annuity by appropriate payments into the account of the Agent General for Reparation Payments with the Reichsbank, as prescribed by the Plan. The payments actually received within the period of the fourth Annuity year may be summarized as follows:

	Gold Marks
Contribution from the German budget.....	500,000,000
Transport tax.....	265,826,000
Interest and amortization on the German Railway bonds	605,000,000
Interest and amortization on the German industrial debentures.....	300,000,000
Total...	1,670,826,000

The balance of the fourth Annuity, amounting to 79,174,000 gold marks, did not become due and payable until September, 1928, the first month of the fifth Annuity year. Of this sum the final installment of the year's service of the Railway bonds, amounting to 55 million gold marks, became due and was paid on September 1, 1928; and the balance of 24,174,000 gold marks on account of the transport tax became due and was paid on September 21, 1928, out of the yield of the tax for the fourth Annuity year.

The payments on account of the fourth Annuity were all made promptly when due, in conformity with the detailed arrangements which were made for that purpose. These arrangements have all been described in previous Reports, except for the agreement that was made in July, 1928, for the partial prepayment of the instalment falling due August 25, 1928, on account of the service of the industrial debentures. As stated in the preceding Report, it had proved possible, with the co-operation of the German authorities, to arrange for partial prepayments in March on account of the instalment of the service of the industrial debentures which fell due on April 1, 1928. A similar understanding was reached in connection with the instalment falling due on August 25, 1928, and it was arranged, with the approval of the German Government and the Reparation Commission, that the Bank for Industrial Debentures should make advance payments to the Agent General to the amount of 50 million gold marks, in two instalments of 25 millions each, on July 24, 1928, and August 4, 1928, respectively, both under discount at the rate of 6 per cent per annum for the period in advance of August 25, 1928. Advance payments of 50 millions were made on this basis, and the balance of 100 million gold marks on account of the August 25th instalment was paid on the legal due date.

The transport tax contribution under the Plan is payable out of the yield of the transport tax, and it is satisfactory to note that the total yield of the tax for the fourth Annuity year, as provisionally reported by the Finance Minister of the Reich, amounted to 313,656,936.83 reichsmarks, thus providing a considerable margin over the standard transport tax contribution of 290 million gold marks.

During the fourth Annuity year, in addition to the receipts on account of the fourth Annuity, there were payments to the amount of 75 million gold marks, received during September, 1927, in completion of the third Annuity. These payments have already been noted in previous Reports, and they must be taken into account in considering the reparation receipts that became effectively available for expenditure during the period of the fourth Annuity year.

3. Arrangements for the Fifth Annuity.

The fifth Annuity payable under the Experts' Plan rises to a total of 2,500 million gold marks, made up as follows:

	Gold Marks
Contribution from the German budget	1,250,000,000
Transport tax	290,000,000
Interest and amortization on the German Railway bonds	660,000,000
Interest and amortization on the German industrial debentures	300,000,000
Total.....	2,500,000,000

With the co-operation of the German Government and the German Railway Company, arrangements have been made to spread the payments on account of the fifth Annuity through the year in a way that will secure the most even distribution of receipts. This, in turn, will permit orderly monthly programmes of deliveries and payments, distributed as equally as possible through the year. As

in previous years, however, the months of April and August will show disproportionately large receipts and programmes, because of the payment of 150 million gold marks that falls due in each of these months for the service of the German industrial debentures. It may prove practicable, as in the fourth Annuity year, to arrange for partial prepayment of these sums before the due dates; but in any event the disproportion in these two months becomes relatively less important in the fifth and subsequent years because of the increased size of the Annuity, all of which, except for the service of the industrial debentures, is available for expenditure on a regular monthly basis.

The contribution from the German budget, amounting to 1,250 million gold marks in the fifth Annuity year, is payable in equal monthly instalments. These instalments, in accordance with the terms of the Control Protocol, are withheld from the yield of the controlled revenues by the Commissioner of Controlled Revenues and paid over each month to the Agent General for Reparation Payments. As explained in the preceding Report, an arrangement has been made, in agreement with the Commissioner of Controlled Revenues and the Finance Minister of the Reich, according to which the monthly payments to the Agent General's account, beginning with September, 1928, are made in three instalments, the first two of 30 million gold marks each and the third to cover the balance of around 44 millions. Each instalment is transferred as soon as the amount has accumulated out of the yield of the controlled revenues, and according to the experience thus far, in the initial months of the fifth Annuity year, the three instalments are being realized, in regular succession, before the 15th of each month.

The transport tax contribution, amounting to 290 million gold marks, is payable out of the yield of the transport tax. The Railway law provides that payment shall be made in monthly instalments, but in the absence of special arrangements the monthly payments would depend upon the monthly yield, which is necessarily variable and subject to the seasonal fluctuations of railway traffic. An arrangement has therefore been made for regular monthly payments of the transport tax contribution in the fifth Annuity year on substantially the same basis as in previous years, and without prejudice to any questions of principle, which are reserved on both sides. Under this arrangement the German Government, in agreement with the German Railway Company, makes payment to the Agent General of 24,166,666.66 gold marks on the 15th of each month, beginning with October, 1928, and ending with August, 1929. In this way 265,833,333.26 gold marks will have been paid on account of the transport tax by August 15, 1929; the balance of the year's contribution is to be paid on September 21, 1929, out of the actual yield of the transport tax for the year. The Commissioner for the German Railways calls attention in his report to the change that has recently been made in the rates for the transport tax, in consequence of the consolidation of the former third and fourth classes into a single wooden-seated class. The Commissioner's report gives further details with reference to the change in rates; it is sufficient at this point to note that the German Government has stated that it expects the new rate for the transport tax, with the reclassification

of passenger traffic, to result in no reduction in the total yield of the transport tax, but rather in a material increase. On this understanding the Reparation Commission has made no objection to the German Government's proposals, and the new rate has been put into effect by decree of the Finance Minister of the Reich as from October 1, 1928.

The service of the German Railway bonds for the fifth Annuity year amounts to 660 million gold marks, consisting of interest at the rate of 5 per cent and amortization at the rate of 1 per cent per annum. According to the terms of the bonds, interest and amortization are payable semi-annually, on March 1st and September 1st, but, as was indicated in the preceding Report, an arrangement has been made between the Agent General and the German Railway Company, according to which the payments in respect of the fifth Annuity year will be made in equal monthly instalments, subject to a discount at the rate of 6 per cent per annum on all payments made in advance of the legal due dates. This arrangement, which has received the approval of the German Government and of the Reparation Commission, represents in effect a continuance of the agreement for advance payments that was made in anticipation of the fourth Annuity year, except that the rate of discount has been increased from 5 per cent to 6 per cent for the fifth Annuity year, which may be regarded as a reasonable modification in view of the general level of interest rates prevailing in Germany at the present time.

The service of the German industrial debentures for the fifth Annuity year amounts to 300 million gold marks, consisting of interest at the rate of 5 per cent and amortization at the rate of 1 per cent per annum. According to the terms of the debentures, the service is payable in two equal instalments on April 1st and August 25th in each year, and it is impossible, for the practical reasons indicated in previous Reports, to arrange for payments on a monthly basis. There may be occasions in future, as with the April and August instalments during the fourth Annuity year, when it will be practicable to make special agreements for partial prepayments with the Bank for Industrial Debentures; but it is not contemplated that any general arrangements can be made for this purpose.

4. Provisions for Future Annuities.

The Annuity of 2,500 million gold marks which first becomes payable in the fifth Annuity year is regarded as the standard Annuity under the Experts' Plan. But the standard Annuity itself is subject to increase, as from 1929-30 onwards, by the application of the index of prosperity. The Experts expressly recognized "both the necessity and the justice of maintaining the principle embodied in the Treaty that Germany's payments should increase with what may prove to be the increase in her future capacity". At the same time they believed it essential, "as a condition of stabilization", that "any such increased demands to correspond with increasing capacity should be determined by a method which is clearly defined

in the original settlement, and which is capable of automatic, or at least professional, impartial, and practically indisputable application". "This requirement", they said, "we have tried to meet, as will be seen, by providing that in addition to a fixed annual payment, there shall be a variable addition dependent upon a composite index figure designed to reflect Germany's increasing capacity." The Experts went on to point out that it was outside their competence "to establish a limit of years or of amount for the working of the index", or "to fix the number of Annuities which Germany will have to pay, as this would practically mean the fixation of a new German capital debt".

The Experts' Plan accordingly provided for the application of an index of prosperity, beginning with the sixth Annuity year, 1929-30, and for the payment of the additional sum resulting each year from the application of this index as an increase in the budgetary contribution. "Under this system", the Experts said, "Germany will retain her incentive to develop, as she retains the major part of the advantage of any increase in prosperity, while the Allies obtain a reasonable share in this increase and avoid the risk of losing through a premature estimate of future capacity." The Experts also considered carefully the question of the amount to which the index should be applied, and concluded that it would be desirable "to apply it to the purely budget contribution 1,250 million (or one-half of the total standard payment) for the first five years of the application of the index, viz., 1929-30 to 1933-34. After that date, 1934-35, the index should apply on the full amount of the contribution, namely, 2,500 million gold marks". The London Agreement, in Annex I, confirmed the provisions for the application of the index of prosperity, and prescribed the procedure to be followed in its establishment. In this connection, it provided specifically for the appointment of an index committee, with two members appointed by the German Government and two by the Reparation Commission, and a possible president to be appointed by the Finance Section of the League of Nations, which is to fix "the rules and regulations according to which the index is to be computed as well as the data and the methods to be used with a view to ascertaining that the statistics furnishing the several elements of the index are as correct and unquestionable as possible". The German Government, it is further provided, "will have the index computed by the 'Statistisches Reichsamt' in accordance with the methods indicated by the Committee".

The Experts also provided one further "correcting factor", which, they said, "is only a precautionary measure and may never be actually involved". According to this provision, as modified by the London Agreement, the Annuity may be increased or decreased in case the general purchasing power of gold should alter by not less than 10 per cent as compared with its purchasing power in 1928. The London Agreement, in Annex I, provides in terms as follows:

"From the year 1928 onwards the German Government, the Reparation Commission and the Governments represented on the Reparation Commission shall each have the right in any future year to ask for a revision of Germany's liabilities on the ground that the general purchasing power of gold—as

compared with 1928—has altered by not less than 10 per cent. The revision to be made may apply both to the standard contribution and to the supplementary payment in accordance with the index of prosperity, as regards the latter, however, only in so far as the alteration of the purchasing power of gold has not already played a part in determining the figures of the several elements of the index of prosperity. Failing mutual agreement a decision shall be given by an arbitral committee appointed by the League of Nations. After the decision, the altered basis shall stand for each succeeding year until a claim be made by either party that there has again been a change since the year to which the alteration applied of not less than 10 per cent."

This provision, it will be observed, may operate to increase or decrease the Annuity, and it differs in this respect from the index of prosperity, which can only be applied to increase the standard Annuity.

b. The Distribution of the Annuity.

The distribution of the reparation payments made by Germany has proceeded steadily throughout the fourth Annuity year, and payments for the benefit of the creditor Powers and for the other objects of expenditure contemplated by the Plan have been regularly made by the Agent General, under authority of the Transfer Committee. The distribution of the payments is summarized in the following paragraphs and is further described in the chapter relating to the work of the Transfer Committee.

1. Basis of Distribution.

The basis of distribution follows the principles laid down in the Finance Ministers' Agreement of January 14, 1925, which have been fully explained in previous Reports. It may be summarized as follows:

The first charge on the Annuity is the service of the German External Loan, 1924.

The next charges are the priorities recognized by the Finance Ministers' Agreement, consisting chiefly of the costs of administration of the various Inter-Allied Commissions.

After these prior charges come the shares of the creditor Powers themselves, which include not merely their respective shares of reparation on the basis of the so-called Spa percentages, but also the various allowances for army costs, both in arrears and current, the Belgian war debt allotments, allowances for restitution, and the special share allotted to the United States of America in respect of the awards of the Mixed Claims Commission.

The basis of distribution changes in certain respects from year to year, and the distribution of the payments is always made according to the Annuity to which they belong and without regard to the date when they happen to become available. Tables showing the distribution of the second, third, fourth and fifth Annuities are attached to this Report as Exhibits II, III, IV and V. The distribution of the second Annuity may now be regarded as final for all

practical purposes. The distribution of the third Annuity has been further revised during the past year, and the only important point which now remains to be determined relates to the allowances for current army costs, which have not yet been definitely fixed. The distribution of the fourth Annuity has also been further revised, but still remains subject to further modification. Current army costs have not yet been definitely fixed; the costs of Inter-Allied Commissions will probably be slightly reduced as compared with the provisional figures; and further amounts for interest earned and exchange differences remain to be brought to account. The distribution which is given for the fifth Annuity is, of course, provisional and subject to revision.

Under Article 3 A (2) of the Finance Ministers' Agreement of January 14, 1925, there was allotted to the United States of America, for the purpose of satisfying the awards of the Mixed Claims Commission, a $2\frac{1}{4}$ per cent share of all receipts from Germany under the Plan, available for distribution as reparations, provided that the annuity resulting from this percentage should not in any year exceed the sum of 45 million gold marks. This proviso comes into operation for the first time in connection with the distribution of the fifth Annuity, since the application of the allotted percentage to the fifth or standard Annuity would result in a sum exceeding the maximum allowance. In the distribution of the fifth Annuity, therefore, the lump sum of 45 million gold marks is assigned to the United States of America on account of the awards of the Mixed Claims Commission.

In accordance with Article 20 of the Finance Ministers' Agreement of January 14, 1925, a deduction of 10 per cent has had to be made from the shares of Italy and Serbia, beginning with the third Annuity year, in liquidation of the excess and arrears accounts arising out of Germany's payments and deliveries before the Experts' Plan came into force. The funds thus deducted from the shares of these two Powers are made available, in turn, to the Powers who have claims against the reparation pool, in proportion to their respective arrears. It is expected that the amounts due from Italy will have been entirely reclaimed, with interest, before the end of the fifth Annuity year, and from that point, of course, the deduction of 10 per cent from the regular Italian share will come to an end.

2. Summary of Receipts and Payments.

The funds at the disposal of the Agent General during the fourth Annuity year amounted altogether to 1,935,879,078.68 gold marks. This total was made up as follows: (1) the cash balance brought forward from the third Annuity year, amounting to 185,487,192.84 gold marks; (2) the receipts from Germany in September, 1927, in completion of the third Annuity, amounting to 75,000,000 gold marks; (3) the receipts from Germany during the year on account of the fourth Annuity, amounting to 1,670,826,000 gold marks; and (4) the interest received on cash balances and gain in exchange, amounting to 4,565,885.84 gold marks. From the total of 1,935,879,078.68 gold marks there must be deducted the sum of 7,092,938.41 gold marks, representing the

agreed discount on advance payments by the German Railway Company and the Bank for Industrial Debentures. The effective balance available for distribution among the creditor Powers and for meeting the other charges contemplated by the Plan thus amounted to 1,928,786,140.27 gold marks.

The payment of prior charges called for the following amounts during the year: 90,491,098.29 gold marks for the service of the German External Loan, 1924; 8,231,820.45 gold marks for the expenses of the various Inter-Allied Commissions; and 53,933.37 gold marks for the costs of arbitral bodies established under the Plan. There remained, after meeting these prior charges, a total of 1,830,009,288.16 gold marks for distribution among the Powers, out of which 1,640,520,343.30 gold marks were actually disbursed during the year, leaving a cash balance on August 31, 1928, of 189,488,944.86 gold marks. Against this balance there were outstanding commitments on August 31, 1928, to a total of 160,500,000 gold marks, consisting of 77,326,417.82 gold marks of accounts payable and 83,196,970.15 gold marks of commitments under approved contracts for deliveries in kind.

The accounts of the Agent General for Reparation Payments for the fourth Annuity year have been audited by Messrs. Price, Waterhouse & Co., of Berlin. Copies of the Balance Sheet as of August 31, 1928, and of the Statement of Receipts and Payments for the fourth Annuity year, in the form certified by the auditors, are attached to this Report as Exhibits VI and VII, respectively. There are also attached two further statements showing the distribution of the payments in greater detail, one appearing as Exhibit VIII, which gives the distribution among the Powers of the amounts available for expenditure during the fourth Annuity year, and the other, appearing as Exhibit IX, which analyzes the payments and accounts payable according to categories of expenditure. The accounts are all kept in gold marks on the basis prescribed in the London Agreement.

3. Use of the Funds by the Creditor Powers.

The creditor Powers have utilized the sums available to them for expenditure during the fourth Annuity year in the following manner:

France.—The total funds available to France amounted to about 1,014,559,000 gold marks. The French Government has taken about 50,649,000 gold marks for the expenses of its army of occupation in the Rhineland, and to effect a final settlement with the German Government in respect of the costs of occupation of the Ruhr. France has also taken about 56,456,000 gold marks through the operation of its Reparation Recovery Act, in the franc equivalent at the Bank of France, and has received cash transfers in foreign currencies to the amount of 279,721,000 gold marks. Of the remainder of the French share, about 183,238,000 gold marks were expended for the purchase of coal, coke and lignite, and for transport thereon; 46,041,000 gold marks for chemical fertilizers; 28,640,000 gold marks for agricultural products;

20,026,000 gold marks for sugar; 14,907,000 gold marks for timber; 8,129,000 gold marks for coal by-products; 6,653,000 gold marks for dyestuffs and pharmaceutical products; and about 237,374,000 gold marks for miscellaneous payments and deliveries of great variety. The foregoing items total 931,834,000 gold marks, leaving an unexpended balance of 82,725,000 gold marks. Of this balance about 68,331,000 gold marks were held committed on August 31, 1928, to meet payments provided for under approved contracts for deliveries in kind.

The British Empire.—The British share amounted altogether to about 373,246,000 gold marks. The British Government has taken about 12,877,000 gold marks for the expenses of its army of occupation in the Rhineland, and 56,674,000 gold marks in cash transfers, of which 49,165,000 gold marks were transferred in foreign currencies and 7,509,000 gold marks were applied towards the settlement of certain balances which the British Government agreed to pay to the German Government on account of wages earned by German prisoners of war and civilians interned in Great Britain during the war. The British Government, in addition, has taken about 297,593,000 gold marks through the operation of the Reparation Recovery Act, in the sterling equivalent at the Bank of England. There remained to its credit, at the end of the year, an unexpended balance of about 6,102,000 gold marks.

Italy.—The Italian share amounted to about 133,006,000 gold marks. Italy has taken 74,350,000 gold marks for coal and coke, and for transport thereon; 4,642,000 gold marks for coal by-products; 3,926,000 gold marks for dyestuffs and pharmaceutical products; 2,012,000 gold marks for miscellaneous payments and deliveries; and 39,336,000 gold marks in cash transfers in foreign currencies. There remained on August 31, 1928, an unexpended balance of 8,740,000 gold marks, of which 885,000 gold marks were held committed under approved contracts for deliveries in kind.

Belgium.—The funds available to Belgium amounted to about 115,396,000 gold marks. Belgium has taken about 2,153,000 gold marks for the expenses of its army of occupation, and has received about 17,782,000 gold marks in cash transfers in foreign currencies. In addition, Belgium has taken about 25,254,000 gold marks for coal and coke, and for transport thereon; 13,217,000 gold marks for chemical fertilizers; 8,015,000 gold marks for dyestuffs and pharmaceutical products; 3,543,000 gold marks for coal by-products; and 39,572,000 gold marks for miscellaneous deliveries of great variety. The foregoing items account for 109,536,000 gold marks, leaving an unexpended balance on August 31, 1928, of 5,860,000 gold marks, practically the whole of which was held committed under approved contracts for deliveries in kind.

Serb-Croat-Slovene State.—The Serbian share amounted to about 67,179,000 gold marks. Serbia received 14,844,000 gold marks in cash transfers in foreign currencies and 45,788,000 gold marks in miscellaneous payments and deliveries of great variety.

There remained on August 31, 1928, an unexpended balance of 6,547,000 gold marks, of which 5,918,000 gold marks were held committed under approved contracts for deliveries in kind.

The United States of America.—The total share of the United States amounted to about 85,233,000 gold marks. The United States Government has taken 55,000,000 gold marks in cash transfers, on account of its priority for army costs in arrears under Article 3 A (1) of the Finance Ministers' Agreement of January 14, 1925. Practically all the remainder of the American share was taken in the dollar equivalent under a special agreement with the German Government for regular monthly payments on a basis substantially analogous to the financing of deliveries in kind.

Rumania.—The Rumanian share amounted to about 16,678,000 gold marks. Rumania has taken 15,260,000 gold marks in miscellaneous payments and deliveries, and 130,000 gold marks in a cash transfer in foreign currency, leaving an unexpended balance on August 31, 1928, of 1,288,000 gold marks, practically the whole of which was held committed under approved contracts for deliveries in kind.

Japan.—The share of Japan amounted to about 12,547,000 gold marks. Japan received 3,337,000 gold marks in cash transfers in foreign currencies, and 5,824,000 gold marks in miscellaneous deliveries, leaving an unexpended balance on August 31, 1928, of 3,386,000 gold marks, of which 905,000 gold marks were held committed under approved contracts for deliveries in kind.

Portugal.—The Portuguese share amounted to about 10,087,000 gold marks. Portugal took 778,000 gold marks in cash transfers in foreign currencies, and 9,282,000 gold marks in miscellaneous deliveries, leaving an unexpended balance of 27,000 gold marks, practically all of which was held committed under approved contracts for deliveries in kind.

Greece.—The Greek share amounted to about 5,414,000 gold marks. Greece took 4,069,000 gold marks in miscellaneous deliveries, and 287,000 gold marks in a cash transfer in foreign currency, leaving an unexpended balance of 1,058,000 gold marks, of which 85,000 gold marks were held committed under approved contracts for deliveries in kind.

Poland.—The Polish share, which arises entirely on account of restitution, amounted to about 311,000 gold marks. Poland has taken 27,000 gold marks in cash transfers, and 277,000 gold marks for the purchase of horses and for incidental expenses incurred in that connection, leaving an unexpended balance of 7,000 gold marks at the end of the year.

c. The Management of the Annuity.

The routine administration of the Annuity has continued on the general lines already established, and every effort has been made, as in the past, to secure an even flow of deliveries and payments to the creditor Powers. Further progress has also been made in the settlement of outstanding questions and old accounts.

1. Regulation of Programmes.

During the fourth Annuity year the Agent General has continued to follow the practice of arranging regular monthly programmes of expenditure, prepared with due regard to the available receipts and the basis of distribution already described. The draft programmes are prepared for periods of three months at a time and are presented quarterly to the Reparation Commission and the Transfer Committee. This assures advance consideration of the various items of expenditure, as contemplated by the Plan, and gives the creditor Powers sufficient notice of the programmes to enable them to make their own arrangements.

The receipts on account of the fourth Annuity, apart from those for the service of the industrial debentures, came in very evenly throughout the year, and it was possible, therefore, to arrange more evenly distributed monthly programmes than in previous years. The arrangements that were made for the partial pre-payment of the April and August instalments for the service of the industrial debentures still further contributed to the even flow of deliveries and payments.

2. Settlement of Old Accounts.

Previous Reports have referred to the recommendations, under date of January 19, 1927, of the Joint Organizing Committee under the chairmanship of M. Patijn, designed to accelerate the procedure for determining the valuation of German furnishings and contributions to the armies of occupation under Articles 8-12 of the Rhineland Agreement. By agreement among the Powers concerned, the new procedure was made applicable to all such furnishings and contributions as from the beginning of the second Annuity year, September 1, 1925, but it was recognized that it would be some time before all the claims in respect of the period already elapsed could be assessed and registered by the Assessment Commissions which were established for that purpose. It was therefore provided that the assessment and registration of claims in respect of the second and third Annuity years should be allowed up to the end of the fourth Annuity year, August 31, 1928. A system of lump sum advances by the Allied Governments to the German Government was already in force, and it was agreed to continue this system until the end of the third Annuity year, August 31, 1927. It was further provided that the Agent General should keep a special account in which to record, on the one hand, the lump sum advances made on account of furnishings and contributions during the second and third Annuity years, and, on the other hand, the claims assessed and registered in respect of that period. Toward the end of the fourth Annuity year, it became clear that the Assessment Commissions would not be able to dispose of all the outstanding claims for the second and third Annuity years within the allotted time, and the Joint Committee of Interpretation which was established in pursuance of the recommendations of the Organizing Committee accordingly decided to postpone the date for the closing of the special account until November 30.

1928. The state of the account as of that date shows that the lump sum advances are considerably in excess of the total claims assessed and registered, and that there will be a balance in favor of the occupying Powers to the amount of about 34.3 million gold marks. It has now been agreed, through the Joint Committee of Interpretation, that this credit shall be gradually recouped by the cessation of the monthly payments that would otherwise be due to the German Government in respect of current furnishings and contributions. Any claims that may be allowed after November 30, 1928, in respect of the second and third Annuity years, will be included with claims in respect of current furnishings and contributions, and will be treated in the same manner. By this latest agreement, therefore, the whole question of the valuation of furnishings and contributions under Articles 8-12 of the Rhineland Agreement has been placed on a current basis, and any outstanding claims which remain to be liquidated will be covered in the regular monthly accounts.

The problem of the valuation of requisitions and damages under Article 6 of the Rhineland Agreement still remains unsettled. The Conference of Ambassadors and the German Government are again in correspondence in connection with this question, but apparently the German Government now takes the position that the questions in dispute have to do with the interpretation and application of the provisions of Article 6 of the Rhineland Agreement, rather than with the interpretation of the Experts' Plan, and that, accordingly, they are not appropriate for submission to the Arbitral Tribunal of Interpretation established under the London Agreement. The German Government has at the same time suggested the submission of the disputed points to a Joint Organizing Committee for decision.

3. Administrative Organization.

The present status of the organization for the administration of the Experts' Plan is shown in the table annexed hereto as Exhibit X. The organization, which numbers 124, includes not only the staff of the Agent General for Reparation Payments, the Transfer Committee and the several Commissioners and Trustees, but also the general services of the Office for Reparation Payments, which centralize the administrative work of the various divisions of the organization. The expenses of the organization have remained within the limits of the sum allotted to it by the Finance Ministers' Agreement; out of this allotment, in addition to the expenses of the organization proper, about 484,000 gold marks were paid during the fourth Annuity year in order to cover the Trustee's share in the administrative expenses of the Bank for Industrial Debentures.

Mr. Richard B. Wigglesworth, who served as an Assistant to the Agent General in Berlin from October 31, 1924, until August 31, 1927, and after that as Representative of the Agent General in Paris, resigned in November, 1928, owing to his election as a Member of the House of Representatives of the United States of America. Mr. J. H. Riddle, who has been a member of the Economic Service of the Transfer Committee since December, 1925, and more recently one of the Economic Advisers, has also resigned, effective December 31, 1928, to enter private business in America.

d. Arbitration Proceedings.

The previous Report referred to the decision pronounced by the Arbitral Tribunal on May 29, 1928, on the three questions which were submitted to it for decision, at the request of the German Government, as to the interpretation of the Experts' Plan in connection with the liquidation of German property, rights and interests. There are no questions pending before the Arbitral Tribunal at the present time.

e. The German External Loan, 1924.

The fourth year of the German External Loan ended on October 15, 1928, and a statement showing the position of the loan as at that date is attached to this Report as Exhibit XI. The Agent General, acting for the Trustees of the loan, has continued to provide out of the Annuity, as contemplated by the Plan, the funds required for the service of the loan, and has disbursed about 90,419,000 gold marks for this purpose during the fourth loan year, practically all of which was transferred in foreign currencies.

The position of the bonds in the markets of the world has made it practically impossible for the Trustees to purchase bonds for sinking fund purposes at prices not exceeding those fixed for redemption by drawings. In fact, the only purchases which could be made during the fourth loan year were in respect of the Italian tranche, where about 20 per cent of the funds available for sinking fund purposes have been utilized in this way, and in respect of the American tranche, where three small purchases were made. In all tranches of the loan, therefore, it became necessary, before the end of the loan year, to proceed to the redemption of bonds by drawings, as provided in the terms of the general bond securing the loan. These drawings were conducted under the supervision of the Trustees, with the co-operation of the Reichsschuldenverwaltung, at the offices of the respective paying agents, and the bonds thus drawn for redemption have ceased to bear interest as from October 15, 1928.

The nominal amount of bonds redeemed by purchase or drawn for redemption in the fourth loan year was about 28,322,000 gold marks, on the basis of conversions of foreign currencies into gold marks at the rate of October 15, 1928. The total nominal amount of bonds redeemed by purchase or drawn for redemption in the first four loan years taken together is about 111,788,000 gold marks, on the basis of conversions of foreign currencies into gold marks at the rate of October 15th in the respective years of redemption.

II. The Work of the Transfer Committee.

The Experts' Plan provides that all payments on account of reparations, however derived, are to be made in the form of deposits in the Reichsbank to the credit of the Agent General for Reparation Payments. Withdrawals from this deposit are to be made only by the Agent General, under the control, however, of the Transfer Committee. Under the Plan the Transfer Committee is charged with the duty of regulating the execution of the programmes for deliveries in kind and Reparation Recovery Act payments in such a manner as to prevent difficulties arising with the foreign exchange, of controlling the transfer of cash to the creditor Governments by purchase of foreign exchange, and generally of so acting "as to secure the maximum transfers, without bringing about instability of currency".

The Experts recognized that "experience, and experience alone, can show what transfer into foreign currencies can in practice be made". The results of four years' experience are now available, and the work of the Transfer Committee in the fourth Annuity year is accordingly presented with appropriate diagrams illustrating the development of reparation transfers during the four-year period.

a. Summary of Transfer Operations.

The table below shows the funds available for transfer during the fourth Annuity year and the transfers actually made during this period under authority of the Transfer Committee, all expressed in gold marks:

AVAILABLE FUNDS		
Balance as at August 31, 1927		185,487,192.84
Receipts in completion of the third Annuity, in September, 1927:		
Transport tax		20,000,000.—
Interest on German Railway bonds.....		55,000,000.—
Receipts on account of the fourth Annuity, during the period September 1, 1927, to August 31, 1928:		
Budgetary contribution		500,000,000.—
Transport tax		265,826,000.—
Interest and amortization on German Railway bonds		605,000,000.—
Interest and amortization on German industrial debentures		300,000,000.—
Interest received on cash balances		4,315,456.11
Gain in exchange		250,429.73
	Total	1,935,879,078.68
Deduct:		
Discount on advance payments for service of		
German Railway bonds	6,764,264.88	
German industrial debentures	328,673.53	7,092,938.41
	Total available for transfer	1,928,786,140.27

TRANSFERS

In foreign currencies:

Service of German External Loan, 1924	90,491,098.29	
British Reparation Recovery Act	297,498,001.81	
French Reparation Recovery Act	53,488,600.45	
Deliveries under agreement to the		
United States of America	30,163,566.83	
Settlement of balances owing for deliveries made or services rendered by		
Germany prior to September 1, 1924	7,511,586.93	
Transferred in cash	460,405,257.55	
Costs of Inter-Allied Commissions ..	3,624,095.31	
Costs of arbitral bodies	53,933.37	943,236,140.54

By reichsmark payments for:

Deliveries in kind	724,536,051.10	
Armies of occupation	65,678,554.21	
Costs of Inter-Allied Commissions ..	4,607,725.14	
Miscellaneous objects	1,238,724.42	796,061,054.87

Total transfers 1,739,297,195.41

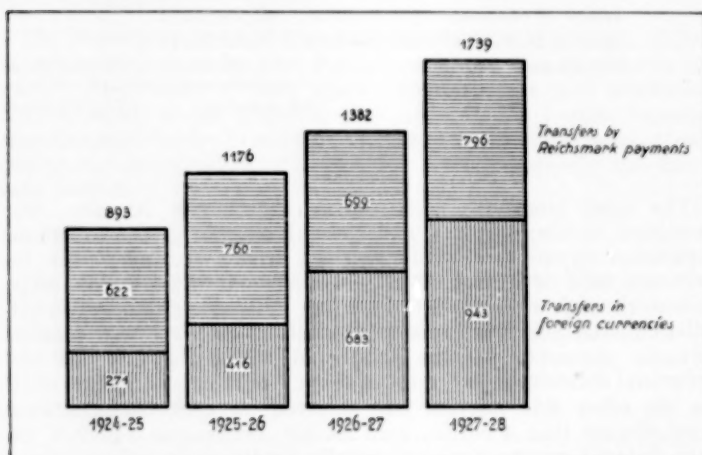
CASH BALANCE as at August 31, 1928 189,488,944.86

The total transfers made during the fourth Annuity year amounted, in round figures, to 1,739 million gold marks, as against reparation payments actually received from Germany within the year to a total of 1,746 million gold marks. In other words, transfers were made during the year to an amount substantially equivalent to the year's receipts. In addition, discount was paid on advance payments for the service of the Railway bonds and industrial debentures, to a total of about 7 million gold marks, while on the other side interest was received on cash balances to a total of more than 4 million gold marks. On August 31, 1928, the cash balance to the Agent General's credit amounted, in round figures, to 189.5 million gold marks, an increase of about 4 millions as compared with the available balance at the beginning of the year. Against this cash balance, there were outstanding commitments to a total of about 160 million gold marks, of which 77 millions were in accounts payable and 83 millions in outstanding liabilities under approved contracts for deliveries in kind.

Out of the total transfers of 1,739,297,195.41 gold marks during the fourth Annuity year, the transfers in foreign currencies amounted to 943,236,140.54 gold marks, or 54.23 per cent, while the amounts transferred by means of reichsmark payments within Germany aggregated 796,061,054.87 gold marks, or 45.77 per cent. These percentages indicate a continuance of the tendency which has been noted in previous Reports towards the transfer of an increasing proportion of the Annuity in foreign currencies. The following table shows, for each of the first four Annuity years, the proportion of the total transfers which has been made in foreign currencies, as compared with transfers by means of reichsmark payments:

Transfers effected	In foreign currencies	By reichsmark payments
First Annuity year . . .	30.37%	69.63%
Second Annuity year . .	35.35%	64.65%
Third Annuity year . . .	49.45%	50.55%
Fourth Annuity year . . .	54.23%	45.77%

The development of reparation transfers in the first four years of the execution of the Plan, and the composition of the transfers effected, are further illustrated in the following diagram:



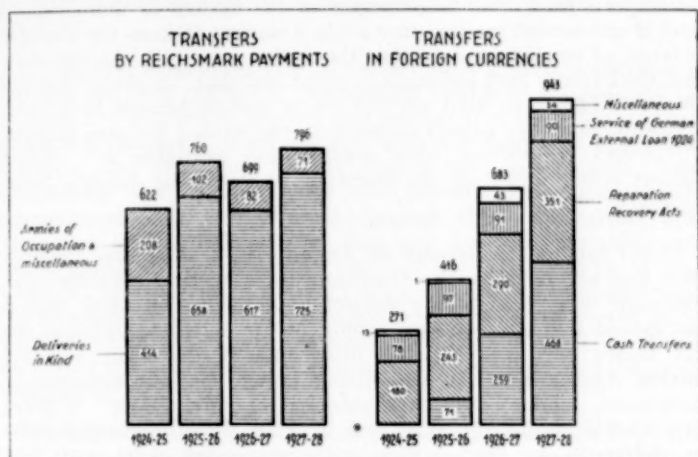
Composition of transfers effected.

(In millions of gold marks)

The transfers by reichsmark payments within Germany represent principally payments for deliveries in kind and the expenses of the armies of occupation. The transfers in foreign currencies represent principally the service of the German External Loan, payments under the Reparation Recovery Acts and under the agreement with the United States of America, and direct transfers in cash. The cash transfers include payments made on account of the priority of the United States of America for army costs in arrears, as well as the cash transfers for general distribution among the creditor Powers.

The following diagram gives in graphic form, for each of the first four Annuity years, an analysis of the transfers by means of reichsmark payments and the transfers in foreign currencies, and

shows very clearly the steadily increasing volume of transfers in foreign currencies:



Analysis of transfers effected.
(In millions of gold marks)

Transfers in foreign currencies, in other words, have absorbed most of the increase from year to year in the Annuities payable under the Plan; but deliveries in kind have been maintained with remarkable consistency throughout the period, and they have increased materially in the fourth Annuity year.

b. Development of Deliveries in Kind.

Deliveries in kind continue to play an important part in the transfer of reparation payments, and they have made further progress in the past year. Previous Reports have described the general procedure for deliveries in kind, and their development since the beginning of the Plan. It is of interest at this time to note particularly the course of deliveries during the fourth Annuity year, and in that connection to refer briefly to the history of deliveries in kind during the four years of the Experts' Plan.

1. In General.

The Experts recognized the necessity for the continuance of deliveries in kind, and called attention to the fact that deliveries had been dealt with in the Treaty and had already become "an inevitable part of the economic conditions of several of the Allies", so that they could not be abandoned without considerable dislocation. The Experts considered, moreover, that deliveries in kind might represent a stimulus to German productivity and therefore

to the creation of a greater export surplus; and that they would also help in avoiding the absorption of such a surplus by the prior action of German investment abroad. "In this connection", the Experts said, "the maintenance of the system of deliveries in kind, if not carried too far, may act in a manner to keep the transfer as large as possible and to give the Allies priority". At the same time, the Experts took occasion to point out that "in their financial effects, deliveries in kind are not really distinguishable from cash payments, and they cannot in the long run exceed the true surplus of German production over consumption available for export without either upsetting the exchange or rendering foreign loans necessary".

At the London Conference in August, 1924, when the Experts' Plan was accepted by the Governments concerned, further consideration was given to the subject of deliveries in kind, and it was agreed that a Committee should be appointed to examine the best means for applying the provisions of the Plan and the London Agreements. An Organizing Committee was accordingly constituted, under the chairmanship of Mr. Marc Wallenberg of Stockholm, Sweden, and in May, 1925, the regulations for deliveries in kind which it recommended were put into force. The whole procedure for reparation deliveries in kind is governed by these regulations. Among other things, the regulations prescribe lists of commodities (a) which cannot be delivered on reparation account, or (b) the quantity of which is rationed, or (c) the value of which may be only partially paid for out of the funds of the Agent General. The commodities which cannot be delivered on reparation account include gold, platinum and silver articles, certain agricultural products, all commodities of foreign origin which have not undergone any transformation in German territory, and miscellaneous industrial products. The rationed commodities, that is, those which Germany agrees to supply only in limited quantities, include principally coal by-products, refractory earths and certain agricultural products. The commodities which can be paid for only partially out of the funds of the Agent General include commodities containing raw materials of foreign origin to an amount representing at least 25 per cent of their total value; for example, if a telephone cable is delivered on reparation account the value of the copper of foreign origin contained therein must be paid for direct by the Allied purchaser and not through the Agent General.

Throughout the first four years of the Plan, the delivery of the natural products of Germany, such as coal, coke, dyestuffs, fertilizers, etc., has gone forward regularly and smoothly and in increasing amounts. In the earlier years the other predominating deliveries consisted of wood, construction iron, and cattle, for the reconstruction and rehabilitation of the areas invaded during the war. Later on, as this work approached completion, the more important deliveries consisted of wood pulp, paper, sugar, machinery and other materials and equipment for agriculture and industry. More recently, as the gradual increase in the Annuities has provided

available funds, the French Government, and to a smaller extent the Serbian and Portuguese Governments, have submitted a variety of contracts for deliveries of goods and services to be used in works of public utility and for the economic equipment of their respective countries.

In the fourth Annuity year, there has been a further increase in the number and value of commercial contracts entered into for execution on reparation account and presented to the Transfer Committee for approval. This accords with the tendency which was noted in the preceding Report and is the natural result of the increase in the Annuity. At the present time most of the deliveries in kind are effected through these commercial contracts, but certain deliveries of coal and dyestuffs are still made under special agreements. The value of special deliveries of coal, however, has gradually declined since the second Annuity year, and increasingly important quantities are now being delivered under contracts made pursuant to the coal conventions between the Rhine-land Westphalian Coal Syndicate and France, Italy and Belgium, respectively.

The following table gives the comparative figures for deliveries in kind contracts and the values involved, for the second, third and fourth Annuity years:

Deliveries in Kind	Number of contracts	Covered by contracts	Covered by special agreements	Total
		Values in millions of reichsmarks		
Second Annuity year	3.706	336	331	667
Third Annuity year	4.666	669	126	795
Fourth Annuity year	5.421	863	105	968

It should be observed that owing to the time required for the execution of contracts, the value of deliveries in kind covered by approved contracts or special agreements during any given period can never be compared with the actual expenditures for deliveries in kind during the same period. But the actual expenditures for deliveries in kind have naturally shown the same tendency to increase which has been noted in the case of the contracts, and they amounted in the fourth Annuity year to a total of about 725 million gold marks, as compared with the total of 617 million gold marks in the third Annuity year.

France, by reason of the importance of her share, is the Power most interested in deliveries in kind. The principal French contracts, as usual, have been those for coal, coke and lignite, to the number of 95, and with a total value of about 192,418,000 reichsmarks. Towards the end of the fourth Annuity year an important series of contracts was concluded between the Paris, Lyons and Mediterranean Railway Company and various German firms,

providing for the delivery of material necessary for the installation of continuous brakes on freight cars of the French railways; the total value of these contracts amounted to 59,328,000 reichsmarks. There have also been contracts amounting altogether to about 113,539,000 reichsmarks for various kinds of machinery; 52,342,000 reichsmarks for fertilizers and other chemical products; 46,075,000 reichsmarks for ships and rivercraft; 41,451,000 reichsmarks for horses, cattle and sheep; 32,278,000 reichsmarks for various public works which are described in greater detail below; 30,300,000 reichsmarks for iron, steel and other metals; 28,800,000 reichsmarks for sugar and other agricultural products; 24,123,000 reichsmarks for wood pulp and paper material; 12,605,000 reichsmarks for coal by-products; 4,778,000 reichsmarks for cinematograph films; 3,995,000 reichsmarks for bricks and other refractory products; 3,900,000 reichsmarks for telegraph poles; and 22,118,000 reichsmarks for miscellaneous deliveries.

Italy, besides taking, as usual, deliveries of coal, dyestuffs and pharmaceutical products under general agreements, to the total value of 69,907,000 reichsmarks, also concluded contracts for coal to the value of 7,815,000 reichsmarks; coal by-products 4,546,000 reichsmarks; textile machinery 1,197,000 reichsmarks; and an astronomical telescope costing 337,000 reichsmarks.

The Belgian contracts include 25,147,000 reichsmarks for coal; 42,190,000 reichsmarks for fertilizers and other chemical products; 16,952,000 reichsmarks for various kinds of machinery; 8,486,000 reichsmarks for wood pulp and other paper material; 6,384,000 reichsmarks for iron, steel and other metals; 6,109,000 reichsmarks for ships and rivercraft; 4,389,000 reichsmarks for coal by-products; and 4,250,000 reichsmarks for miscellaneous deliveries.

The Serbian contracts include ships and a floating dock costing altogether 5,483,000 reichsmarks; heating stoves 5,480,000 reichsmarks; machinery and machine tools 5,340,000 reichsmarks; machinery and material for the installation of a cellulose factory 4,395,000 reichsmarks; steel and iron conduits 3,941,000 reichsmarks; wooden houses and sheds 2,800,000 reichsmarks; automobiles and lorries 2,383,000 reichsmarks; hydroplanes 2,250,000 reichsmarks; books, periodicals and scientific charts 2,212,000 reichsmarks; petrol motors 2,075,000 reichsmarks; hospital material 1,001,000 reichsmarks; water sterilizing equipment 999,000 reichsmarks; pharmaceutical products 551,000 reichsmarks; and miscellaneous deliveries 243,000 reichsmarks.

Rumania, during the fourth Annuity year, has ordered only railway and bridge-building material to the value of 42,000 reichsmarks, since practically all of her share had already been committed, as explained in the preceding Report, to pay for railway and sanitary material under contracts made in previous years.

Japan has ordered metallurgical material to a value of 2,307,000 reichsmarks; electrical material, 1,875,000 reichsmarks; various kinds of machinery, 696,000 reichsmarks; books and

periodicals, 409,000 reichsmarks; automobiles, 366,000 reichsmarks; sheet steel, 287,000 reichsmarks; and yarn, 264,000 reichsmarks.

Portugal has contracted for constructional work in the Margueira roads at Lisbon, which it is estimated will take about five and a half years to complete, and will cost 13,697,000 reichsmarks. There have also been Portuguese contracts to the value of 2,302,000 reichsmarks for steam dredgers and boats; 2,000,000 reichsmarks for miscellaneous material for a model farm; 1,313,000 reichsmarks for road-making and other machinery; 824,000 reichsmarks for hospital equipment; 404,000 reichsmarks for cement; 247,000 reichsmarks for steel and iron piping; and 149,000 reichsmarks for automobiles and lorries.

Greece presented only one contract during the fourth Annuity year; it amounted to 393,000 reichsmarks, and covered freight, insurance and erection costs on wooden houses ordered under an earlier contract. The entire absence of new Greek contracts was the result of the dispute arising out of two earlier contracts between the Greek Ministry for War and two German automobile firms. The whole of the Greek share in the Annuities was allotted to these contracts until their complete liquidation, and pending a settlement of outstanding questions under these contracts Greece had no funds available for new contracts. In the month of August, 1928, however, the parties were able to arrive at an agreement for the liquidation of the contracts, and shortly after the close of the fourth Annuity year the Greek Government began to present new contracts for deliveries in kind.

Poland has contracted for horses to the value of 136,000 reichsmarks.

2. Public Works and Other Exceptional Contracts.

The following statement gives a list of the public works contracts passed by the Transfer Committee during the fourth Annuity year, and shows the payments which it is estimated will be called for on reparation account:

	Reichsmarks
FRANCE	
Construction of 3 dams and 3 power stations on the river Verdon, Basses Alpes	11,800,000
Further extension of dredging work in the port of Havre.....	5,329,750
Installation of an electrical towing system on the Rhine-Rhone canal	3,502,537
Dredging work in the river Seine	2,446,850
Demolition of a wooden quay and the construction of a quay in masonry in the harbor of Bordeaux	2,293,305
Construction of a quay in Bordeaux harbor	2,199,137
Construction of 5 quay-side stations in the harbor of Bordeaux	976,500
Construction of quays and basins in the port of Cherbourg	1,610,006
Enlargement and improvement of the harbor of Bonneuil on the river Marne	1,238,426
Installation of a sewage system at Le Touquet-Paris Plage	881,157
PORTUGAL	
Constructional work in the Margueira roads	13,696,700
Total	45,974,368

All contracts for public works are regarded as exceptional under the regulations for deliveries in kind, and are required to follow the special procedure prescribed by the regulations. The contracts are first examined conjointly by the Reparation Commission Office and the German Office for Deliveries in Kind, under the chairmanship of the American citizen member of the Reparation Commission; and they come to the Transfer Committee and to the Reparation Commission with the observations of the two Offices. The contracts go into execution only in the event of a favorable decision by both the Reparation Commission and the Transfer Committee.

Apart from the contracts for public works, the following additional categories of contracts are regarded as exceptional within the meaning of the regulations for deliveries in kind:

- (a) contracts for complete installations and for shipbuilding;
- (b) contracts providing for deliveries or payments extending over more than 24 months;
- (c) contracts for non-rationed commodities involving payments exceeding 12 million gold marks per annum.

During the fourth Annuity year the Transfer Committee has passed about twenty exceptional contracts coming within these various categories. The following statement summarizes the contracts, and shows the payments which it is estimated will be made under them on reparation account:

	Reichsmarks
FRANCE	
Delivery of material necessary for the installation of continuous brakes on the French railways.....	59,327,521
Construction of various cargo boats and an oil tank steamer	19,789,847
Delivery of material for the construction of electric locomotives	11,335,821
Delivery of chemical fertilizers.....	20,182,259
Complete installation of a paper factory.....	11,972,006
Construction and upkeep of a frost wall for the sinking of two mine shafts.....	710,000
Cession of certain manufacturing and selling rights.....	550,000
BELGIUM	
Construction of two cargo steamers	5,069,120
SERBIA	
Installation of a complete plant for the manufacture of cellulose	4,394,757
Construction of a motor vessel for passengers and cargo....	2,550,000
PORTUGAL	
Delivery of material for a model farm.....	1,999,977
Construction of a dredger.....	1,050,000
Total....	138,931,308

For the most part, it will be noted, the public works and other exceptional contracts have been placed for the account of France, and they reflect the efforts that have been made by the French Government to stimulate contracts for works of public utility and supplies that are needed for the economic equipment of France, her colonies, dependencies, and protectorates. The preceding Report described some of the measures which have been taken

to this end, including particularly the law of March 24, 1928, which granted special administrative facilities for the promotion of works of public utility to be executed in whole or in part by means of deliveries in kind. Works executed under these conditions may be authorized by decree, whereas in the majority of cases special legislation would otherwise have been required; the public authorities are authorized to conclude private contracts instead of being obliged to ask for tenders on the open market; special facilities are granted for the repayment of the annual instalments due to the Treasury; and as an exception to the usual regulations governing public works, any litigation which may arise in connection with the contracts is to be submitted to arbitration. Moreover, the French Government is authorized by this law to grant by decree total or partial exemption from customs duties on commodities imported from Germany on reparation account, wherever they are to be utilized for public works. This preferential treatment, however, is restricted to articles imported by the State, the colonies, the departments, the communes, public offices and associations under public law, or the holders of concessions whose plant has to be restored in whole or in part to the public authorities upon the expiration of the concession. Several decrees in execution of the law of March 24, 1928, have been issued during the intervening months. The French colonies, for example, have been authorized to pay the French shipping companies the freightage on the goods imported from Germany on reparation account in graduated instalments. There have also been decrees granting total exemption from customs duties on commodities imported from Germany under the contracts for the delivery of material for the installation of continuous brakes on the French railways; to commodities imported from Germany by the Ministries for War and for the Navy, or for their account, in the execution of contracts for deliveries in kind; and most recently, to commodities imported from Germany by the public administrative authorities in general, or for their account, in the execution of contracts for deliveries in kind.

3. Deliveries from the Saar Territory.

Since the preceding Report there has been a modification in the agreement regulating deliveries in kind from the Saar territory. For the two years ended March 31, 1928, deliveries from the Saar were admitted on reparation account up to a maximum of 5 million gold marks per annum, on condition that they should not entail the delivery of coal or coke and should be for delivery f. o. b. factory, place of production or warehouse. As an exceptional measure, certain contracts providing for the delivery of rails from the Saar were, however, admitted over and above the agreed maximum, with the consent of the German Government, the Reparation Commission and the Transfer Committee. It has recently been agreed, after long negotiations, that for the year ending March 31, 1929, the quota for general deliveries from the Saar shall be raised from 5 million to 7.5 million gold marks, and that, over and above this sum, deliveries from Saar factories of rails and fish-plates, sleepers, iron for reinforcing concrete, sections,

girders, universal iron and mine rails shall be allowed within certain maximum tonnages for each category and up to a maximum total value of 15 million reichsmarks for all these categories taken together. In other respects the conditions governing deliveries in kind from the Saar remain unchanged.

c. The Reparation Recovery Acts.

The last Report described the new system which was put into effect in March, 1928, for administering the French Reparation Recovery Act. This system, which is substantially the same as that adopted in April, 1925, for the British Reparation Recovery Act, provides for voluntary surrenders of foreign currencies by German exporters and lump sum payments through the Reichsbank to the credit of the Agent General's account with the Bank of France. Both Recovery Act systems continue to work smoothly and to produce the respective monthly quotas in foreign currencies at the Bank of England and the Bank of France.

d. Transfers in Cash.

During the fourth Annuity year, the Transfer Committee made cash transfers for general distribution among the Powers to the aggregate value of about 405 million gold marks, as compared with a total of about 200 million gold marks in the third Annuity year. In addition, the Committee transferred in cash to the United States of America the equivalent of 55 million gold marks, in payment of its priority for army costs in arrears. With the agreement of the United States Government, the transfers on account of this priority have been made monthly, substantially in proportion to the monthly income available to the Annuity; and the same plan of monthly payments is being observed for the fifth Annuity year.

The Transfer Committee continues to follow the policy of accumulating the foreign currencies necessary for purposes of cash transfer by making purchases from time to time whenever this can be done most advantageously from the standpoint of the exchange. Beginning with the fourth Annuity year, moreover, the Committee has been able to put the cash transfers for general distribution on a more regular monthly basis, in view of the larger credits available to the creditor Powers for transfer purposes. Cash transfers have thus been made at the rate of 25 million gold marks in each month from October, 1927, to March, 1928, inclusive; 35 million gold marks in each month from May to July, 1928, inclusive; and 75 million gold marks in each of the months of April and August, 1928, corresponding to the larger credits available to the Powers in those months. The increase in the Annuity with the fifth or standard year, taken in connection with the strength of the German exchange, has made it possible for the Transfer Committee to increase the volume of cash transfers in recent months to 40 million gold marks in each of the months of September and October, 1928, and 60 million gold marks in November.

The expressions "transfers in cash" and "cash transfers" refer, of course, to the transfers in foreign currencies which the Transfer

Committee makes from time to time to the creditor Powers, after conversion of German currency, under the provisions of Paragraph IV (b) of Annex 6 to the Plan. These terms are used in this Report, as in previous Reports, to indicate this particular class of transfers in foreign currencies, as distinguished from the other payments falling within the general description of transfers in foreign currencies, which are made, for example, for the service of the German External Loan, for the costs of Inter-Allied Commissions, in settlement of the British and French Reparation Recovery Acts, and in financing deliveries under special agreement to the United States of America.

e. The German Railway and Industrial Bonds.

No proposals for selling the reparation bonds of the German Railway Company or the German industrial debentures have come before the Transfer Committee since the last Report. The Committee has had no occasion, therefore, to consider this question or to express any opinion thereon.

III. The Work of the Commissioners and Trustees.

All the Commissioners and Trustees have presented annual reports covering the work in their respective fields. These reports show, among other things, the development of the specific securities provided by the Experts' Plan, and they are particularly interesting from this standpoint, since all the payments that go to make up the reparation Annuity have now reached the standard levels. The reports of the two Trustees also refer to the amortization of the German Railway bonds and of the German industrial debentures, which began in the fourth Annuity year.

a. The Commissioner of the Reichsbank.

The report of the Commissioner of the Reichsbank covers the entire fourth Annuity year, ended August 31, 1928, and it also takes into account the events of importance which have happened since that date, up to early December, 1928.

The Commissioner discusses the developments of the year in the credit and currency situation, and gives a general review of Reichsbank policy during the period. In this connection he refers at some length to the business situation in Germany, as it has developed during the past year; and he also considers the condition of the money market and the internal capital market, the movement of foreign loans and credits, and the course of the German exchange, in their relation to the policy pursued by the Reichsbank.

The Commissioner draws attention in his report to the growth of the gold holdings of the Reichsbank during the period under review. At the end of November, 1928, the stock of gold held by the Reichsbank amounted to about 2,623.5 million reichsmarks, as compared with a total of about 1,852.5 millions at the beginning of the fourth Annuity year, an increase of about 771 millions during the period covered by his report. The gold inflow has continued with remarkable persistence during the past twelve months, though the monthly increase, as the Commissioner points out, has varied widely. Especially during the last few months, he adds, very important gold consignments have reached the Reichsbank from Great Britain, while in many cases consignments have been received from Russia. The Commissioner also remarks in his report upon the general stability of the money market during the year, and on the consistent level of the calls on the Reichsbank, which have even shown a certain tendency to decline in recent months. The discount rate remained unchanged throughout the period, and the Reichsbank, as the Commissioner says, was confronted with "no acute questions of credit policy".

The Commissioner ends his report with an appreciation of the present position as compared with that of four years ago, and remarks upon the "very great advance, alike in regard to the economic development of the country as a whole and in regard to the position of the Reichsbank in particular". "It is a satisfactory phenomenon", he says in conclusion, "that the position of the

Reichsbank has continually strengthened, and is to-day stronger than at any other period of the last four years”.

Chapter VI of the present Report gives a further review of credit conditions and the currency in relation to the execution of the Experts' Plan as a whole.

b. The Commissioner for the German Railways.

The financial position of the German Railway Company presents a number of points of interest in connection with the operation of the Plan as a whole. The Company's position is considered at length in the Report of the Commissioner for the German Railways, and it is accordingly desirable to proceed first to a brief review of his report.

1. Summary of the Commissioner's Report.

The annual report of the Commissioner for the German Railways records the preliminary results of the Company's operations during the first nine months of the calendar year 1928. In his interim report of June 1, 1928, the Commissioner had already discussed the complete returns of the Company for its third business year, ended December 31, 1927. He presented also in that report a survey of the finances of the Railway Company in the light of the difficulties that were then making themselves felt owing to the great increase in current expenditure, largely due to the increased payments to staff. His present report brings this review down to date, gives special attention to the important financial developments which have occurred in the meantime and analyzes the present position of the Company.

The Commissioner recalls that the growing business activity of the year 1927 brought the Railway Company an increase in its operating receipts of 11 per cent, as compared with the preceding year. He then points out that the year 1928 has been characterized by a greater stability in production and that the rise in Railway revenue has not continued at the same rate. Nevertheless, receipts from goods traffic during the period from January to September, 1928, were 2.1 per cent above those for the corresponding period of 1927, while the returns from passenger traffic in the same months were 6.6 per cent higher than in 1927, and the total receipts for the first nine months of 1928, amounting to 3,844 million reichsmarks, showed an increase of 3.1 per cent by comparison with the same period in 1927. The Company's own estimate of its operating receipts for the entire year 1928 puts them at 5,160 million reichsmarks, as compared with actual receipts for 1927 of 5,039 millions. Operating payments during the first nine months of 1928 totalled 3,218 millions and were 9.5 per cent higher than in the first nine months of 1927, chiefly due to the increase in the outlay on personnel account, which the Company estimates will alone amount for the entire year 1928 to 436 millions. During the remaining three months of the business year 1928 the operating results of the Company may, the Commissioner thinks, alter considerably, partially as a result of the tariff increase which went into effect in October; but the Company estimates that the business year will

probably close with a deficit of some 30 millions. The operating ratio of the German Railway Company, which was 85.13 per cent in 1925, 81.06 per cent in 1926, and 82.53 per cent in 1927, has been 83.7 per cent thus far in 1928.

The Commissioner discusses at length in his report the increases in Railway rates which finally took effect early in October, 1928. These increases, it will be recalled, had become necessary owing to the need of the Railway Company for additional current revenue, in the estimated amount of 250 millions a year, as a result of the general increases in the salaries of Reich officials which took effect on October 1, 1927. Under the Railway law, the Company was required to make corresponding increases in the salaries of its own officials. As the Commissioner points out, after the Company's request of the Government for permission to increase its rates had been refused, it was finally agreed to submit the question of the necessity of the increases to the special arbitral tribunal for which provision is made by Article 44 of the Railway law. The court announced its decision in favor of the Company on August 24, 1928. The Commissioner attaches to his report the text of the award and its explanation; and the substance of both is also briefly summarized on page 37 of the present Report.

As a result of this decision, the new tariff rates for goods proposed by the Company went into effect on October 1, 1928, and those for passengers on October 7, 1928. In the case of goods the rates were increased 11 per cent, instead of 10 per cent, as originally contemplated, in order to provide a certain margin of safety, but certain categories of goods were exempted from the rise and the rates on other goods were reduced. The proposals of the Railway Company in regard to passenger rates were combined with a plan for the re-classification of passenger traffic. The new passenger tariff provided for the abolition of the fourth class and the division of all passenger traffic into two classes, called the "wooden-seated" and the "upholstered" classes, the former corresponding to the old third and fourth classes combined and the latter to the old second class. Provision was also made, however, for a "luxury" class on certain international and express trains, corresponding to the former first class. The fares in the "upholstered" and "wooden-seated" classes were reduced, under the new tariff scheme, somewhat below those for the old second and third classes, while the rate for the so-called luxury class was somewhat increased above that for the old first class. The new rates, it is estimated by the Company, will produce about 6.6 per cent larger total receipts from goods traffic and 3 per cent larger receipts from passenger traffic. In relation to the total operating receipts of the Company, estimated for 1928 at about 5,160 millions, the additional income produced by the higher rates would represent about 5 per cent of the total. In the opinion of the Commissioner, the tariff increases are not excessive, as the new rates compare favorably with those in effect in other countries and also with the index figure of prices in Germany. The Commissioner points out, moreover, that the increases in rates on goods are the

first introduced since the creation of the Company, and that it is accordingly improbable that any serious effect on the volume of business will be apparent. The re-classification of passenger traffic led to the necessity of concluding new arrangements for the application of the transport tax, which are described elsewhere in the present Report.

The Commissioner reviews at some length the general position with respect to capital expenditures and gives an analysis of the expenditures which have been made on capital account during the four business years since the organization of the Company. He also discusses the revised programme of capital expenditures for the next few years which the Company has recently prepared and to which further reference is made below in considering the finances of the Railway Company.

In the fourth Annuity year the amount payable by the Railway Company for the service of its reparation bonds reached its maximum level of 660 million gold marks, consisting of interest at the rate of 5 per cent and amortization at the rate of 1 per cent on the total of 11 milliards of Railway bonds held by the Trustee for the Railway Bonds on behalf of the creditor Powers. The Company has discharged its obligations punctually throughout the year, in accordance with the arrangement for monthly instalments already explained in this Report. It has also collected on behalf of the Reich the transport tax, out of the yield of which 290 million gold marks per annum are payable to the Agent General, and the transfers to the Agent General's account were regularly made in the manner described in the present Report. The balance of the proceeds from the transport tax, amounting to some 314 million reichsmarks, was paid over to the Government of the Reich. As the Commissioner remarks, the service of the reparation bonds takes the place of the Company's former capital debt, which has disappeared as a result of the inflation. The sum of 660 millions a year, representing this service at its maximum level, will amount in the business year 1928, the Commissioner points out, to 12.8 per cent of the total estimated revenue of 5,160 millions, or the equivalent of interest at the rate of about 2.4 per cent on the Company's capital.

In the remainder of his report the Commissioner refers in some detail to other matters of interest with regard to the Railway Company, such as the operations of the Verkehrskreditbank and the Mitropa Company, competition from motor transportation enterprises, and the position of the staff. He also summarizes the report of the committee of inquiry appointed in August, 1928, to investigate the safety of operation on the Railway system following a series of accidents in Bavaria. This committee found that the general state of the permanent way was satisfactory and that, aside from certain criticisms of detail, the signalling apparatus was beyond reproach. It also recommended certain readjustments in the schedules of working hours, but arrived at the conclusion that the staff of the Company was not overtaxed.

2. The Finances of the German Railway Company.

During the past six months the German Railway Company has materially improved its financial position, owing partly to the recent increases in its tariffs and also to the gradual institution of improved financial control; and the development of its business as a whole fully confirms the views expressed in the preceding Report, that the Railway Company "has given ample evidence by its results thus far of its ability to carry the full annual charge for the service of its reparation bonds, provided that it follows a prudent financial policy and that the rights of supervision and control reserved to the German Government are not exercised in such a way as to impair its ability to earn a fair and reasonable return on its capital".

(a) Operating revenues and expenditures.

The previous Report traced the history of the Railway Company's application for increased freight and passenger tariffs up to the German Government's decision of June 5, 1928, refusing permission for the proposed increases. Shortly afterward, upon the formation of the new Government following the general election, the Company renewed its application and emphasized the urgent need for a solution. But on July 23, 1928, the new Government also rejected the application, on the ground that it was not satisfied as to the necessity of the proposed increases and that it preferred to await the future development of the Railway Company's receipts. The Government made no objection, however, in view of the Company's desire for a prompt decision, to the immediate submission of the question "whether and to what extent an increase of tariffs is necessary", for decision by the special tribunal attached to the Supreme Court of the Reich, according to the provisions of Article 44 of the Railway law. The question was thereupon submitted by joint agreement to the special tribunal, and on August 24, 1928, the Court made its award, approving the application of the Company and authorizing a general increase of tariffs, calculated to yield the sum of 250 million reichsmarks per annum, and to be distributed between passenger and goods traffic in the proportion of 1 to 4. The Court at the same time favored the reclassification of passenger traffic, though it recommended an increase, instead of the proposed reduction, in the first class fare. Following the award of the Court, the new tariffs for goods traffic were put into force on October 1, 1928, and for passenger traffic on October 7, 1928. Thus the long-standing dispute between the Railway Company and the Government was brought to an end, and on a basis which recognized the Company's right to sufficient revenues to cover its operating expenditures and fixed charges, and to cover them with a reasonable margin of safety.

It is unfortunate, of course, from the standpoint of the German economy, that railroad tariffs have had to be increased. But the tariff increases, in fact, had appeared to be inevitable ever since the general increases in salaries and pensions that were initiated by the German Government in September, 1927, and the Railway Company

had for many months warned the Government that increased tariffs would be necessary on this account. The Memorandum of October 20, 1927, addressed to the German Government, also called attention to the probable necessity of increased railroad tariffs if the Government's proposals for increased salaries and pensions should be put into effect. The decision of the Railway Court, therefore, and the resulting increases in tariffs, must be regarded as having merely taken into account the inevitable consequences of the earlier action of the Government itself. Even with the increased tariffs, as the Commissioner says in his report, the general level of passenger and goods tariffs does not appear excessive in comparison with the general level of prices in Germany. The Commissioner remarks further that "this is the only increase in goods tariffs introduced since the creation of the Company, and it is improbable that it will have any very serious effect on the development of traffic". "Moreover", he continues, "there is every reason to believe that the Company, by pursuing a policy of reasonable economies in accordance with the sound recommendations of the Railway Court, will be able in the ensuing years to cover expenditure without resorting to a fresh tariff increase, provided always that no new and unexpected charges are imposed upon the undertaking in the form of increased expenditure on staff or material, of such a character as to destroy the balance of its budget".

(b) Programme of capital expenditures.

The Commissioner's report has reviewed the general position with respect to capital expenditures, and has pointed out that owing to the difficulties encountered in securing the requisite capital, the Company has been obliged to cut down its capital expenditures "to cover only such works as are really essential to the development of traffic and for keeping level with technical progress". For the business year 1928, it is now estimated that the total capital expenditures will amount to about 354 million reichsmarks, which are to be covered in part by the proceeds of the 200 millions of preference shares which were sold in February and in part by special loans and grants from various sources. The balance is to be met out of reserves or operating surpluses, apparently without further calls on the capital market at this time.

For future years, up to 1936, the Railway Company has recently drawn up a revised programme, which is intended on the one hand to keep capital expenditures within the limits of its financial resources, and on the other, to make sure that the available resources are concentrated on the most necessary and productive work. This programme, of course, is not a rigid scheme, and it will have to be adjusted from time to time in accordance with the actual development of the Company's finances. But it represents an important step in the right direction, and it should help very much in avoiding future difficulties. According to the Commissioner's report, the programme, as now drafted, takes into account the difficulties to be expected with regard to new financing, and makes large reductions in expenditure as compared with previous plans. The Com-

pany, he says, "has more especially revised a number of big schemes," many of which "were very far-reaching and exceeded immediate requirements". In order at the same time to assure the most effective use of the Company's available resources, the programme adopts a new classification of capital expenditures, based largely on the returns to be expected from the work. On this basis, according to the Commissioner's report, capital expenditures have been classified under two accounts, the first comprising expenditure for new works, as to which it is possible to consider the probable return to the Company; and the second, covering expenditure for necessary improvements of plant and equipment, as, for example, the strengthening of superstructure and bridges, the improvement of rolling-stock and the introduction of safety appliances, none of which can be tested so much from the standpoint of probable return.

(c) Financial administration and control.

The previous Report pointed to the fact that the financial problems of the German Railway Company had been aggravated by the lack of a clear-cut financial policy; and the Trustee for the German Railway Bonds called attention at the same time to the necessity of establishing a well-considered financial programme for the Company. During the intervening months, the question of financial administration and control has also been considered by the special Railway Court, which included in its judgment the following remarks bearing on the problem:

"The situation calls for concentration by the Railway of all its liquid resources on an even more drastic scale than hitherto, and the utilization of the same in accordance with the very best principles of banking and finance; and it points also to the necessity of establishing a department, acting in accord with commercial and financial practice, to decide upon the requirements and arrangements of the purchasing side of the undertaking."

It is understood that the Company's management is now engaged in a study of this whole problem, with a view to the installation in the near future of a properly-organized financial administration within the Company to assure the conduct of the enterprise in the most business-like manner. There are already some specific evidences of improved financial control, as, for example, in the revised programme of capital expenditures which has been described in the preceding paragraph; and there is promise of further progress in the same direction from the fact that the Managing Board of the Railway Company is now being strengthened by the appointment of a number of bankers and business men of recognized competence in matters of this kind.

c. The Commissioner of Controlled Revenues.

The report of the Commissioner of Controlled Revenues, dated October 26, 1928, covers the last five months of the fourth Annuity year, ended August 31, 1928, which correspond to the first five months of the German financial year 1928-29.

The Commissioner reports that during this period he has transferred regularly to the account of the Agent General, out of the yield of the controlled revenues, the monthly instalments payable toward the budget contribution to the Annuity. In each of the first two months of the period, he states, he retained a sum equal to 50 million gold marks. Of this amount he paid five-sixths into the account of the Agent General to meet the monthly instalments of $41\frac{2}{3}$ million gold marks required to make up the total budget contribution toward the Annuity in the fourth year of 500 million gold marks. The remaining one-sixth he paid into the special reserve fund of 100 million gold marks for which provision was made in the Experts' Plan. This fund was completely constituted after the transfer of a further small balance in June, and during the final two months of the year the Commissioner has retained only the amount of the budget contribution. The Commissioner attaches to his report a statement of the income and expenditure account of the reserve fund for the year ended August 31, 1928, and a balance sheet as at the end of the year. The net yield from the investment of the reserve fund, he states, is returned to the German Government currently as received.

In reviewing the yield of the controlled revenues, the Commissioner points out that the total receipts for the last five months of the fourth Annuity year were about 1,154 million reichsmarks, as compared with about 1,193 millions for the corresponding period of the third Annuity year. The excess of the actual yield above five-twelfths of the budget estimates for the fiscal year 1928-29 was 4.8 millions, whereas the corresponding excess at the end of August, 1927, was about 190 millions. It should be noted, however, that the budget estimates for 1928-29 reach a total of 2,760 millions, whereas the estimates for 1927-28 were only 2,410 millions. The average monthly yield for the last five months of the fourth Annuity year was 231 millions, as compared with 239 millions in the last five months of the third Annuity year. The Commissioner refers in this connection to the changes in tax legislation, such as the reduction of the sugar tax by one-half, the increase of the alcohol tax and the new tobacco tax law, as well as to the decline in customs receipts, and recalls his statement in his last report to the effect that the budget estimates for 1928-29 would "probably prove to have been framed with much greater closeness than those of the years immediately preceding". He considers that the total revenue collected for the entire financial year 1928-29 will not differ widely from the estimated figure. As illustrative of the great development of the yield of the controlled revenues since the beginning of the Plan, the Commissioner calls attention to the following figures, representing the total receipts from the controlled revenues in the successive Annuity years:

	Reichsmarks
First Annuity year.....	1,702,578,000
Second Annuity year	1,968,593,000
Third Annuity year.....	2,723,918,000
Fourth Annuity year.....	2,852,491,000

The figure for the fourth Annuity year, he emphasizes, represents 228 per cent of the standard budget contribution of 1,250 million gold marks payable in the fifth Annuity year and in subsequent years.

In the further course of his report, the Commissioner discusses in detail the receipts from customs duties as well as those from the taxes on tobacco, beer and sugar and from the alcohol monopoly. As to customs, he indicates that the receipts have declined on the whole until the average monthly yield was 99 millions as compared with 106 millions for the last five months of the third Annuity year. This decline, he states, is due chiefly to lower imports of cereals, and he expects this movement to continue owing to the favorable harvest this year. Any decrease in customs revenue for the entire year, he believes, is likely to be counterbalanced, however, by the excess of revenue from the taxes on consumption. With regard to the tobacco taxes, the Commissioner surveys the effects of the law of March 31, 1928, reducing the period of delay allowed for the payment of the cigarette tax. He also refers to the tendency toward the consumption of higher-priced cigarettes, stating that the 2 and 3 pfennig cigarettes have virtually disappeared and that the 5 pfennig cigarette now accounts for more than one-half of the total consumption. The average yield of the beer tax has been higher than for the same period last year. The Commissioner also mentions the steady rise in the consumption of beer and the apparently flourishing financial condition of most breweries, the average dividend for the year ended September 30, 1927, having been 10 per cent after the assignment of considerable sums to depreciation. The consumption of sugar has also steadily increased, he states, and is now higher than before the war although still much less than the average in some other countries. In respect to the alcohol monopoly, the Commissioner outlines in detail its functioning and results since the stabilization of the currency. He arrives at the conclusion that there are inherent defects in the present financial organization of the monopoly and he recalls in this connection that the bill for its reform, first presented to the Reichsrat in November, 1926, did not come before the Reichstag until December, 1927, and is still in the hands of the Tax Committee. In speaking to the Budget Committee on March 22, 1928, the Finance Minister of the previous Reich Government expressed the opinion that in the possible reorganization of the monopoly there was a revenue reserve of over 100 million gold marks. The present Government has not yet announced its plans with regard to the above-mentioned bill.

d. The Trustee for the German Railway Bonds.

The report of the Trustee for the German Railway Bonds is concerned particularly with the amortization of the reparation bonds of the German Railway Company, and with the practical arrangements for that purpose which he has recently concluded with the Company, with the approval of the Reparation Commission and the assent of the German Government. In this connection, the Trustee

presents *in extenso* two tables of amortization which have now been accepted by all concerned. The first gives the standard table of the service of the Railway bonds, with the annual amounts set aside, respectively, for interest and amortization; while the second provides a supplementary table of amortization which is to be applied "until the issue of a first block of bonds", subject to the express reservation of all mutual rights in respect of the subsequent period. The purpose of this supplementary table of amortization, as the Trustee points out, is to make an equitable allowance for the fact that amortization payments on account of the Railway bonds are made semi-annually, on March 1st and September 1st in each year, whereas amortization itself takes place only once each year, beginning September 1, 1928, according to the provisions of the Railway law and the terms of the bonds themselves. The problem, in other words, was to compensate the German Railway Company for the use of the semi-annual instalment on account of amortization which is paid on March 1st in each year but not applied for amortization purposes until six months later. The second table provides for this compensation by means of a supplementary sinking fund for the retirement of the Railway bonds, consisting of interest for six months at the rate of 5 per cent per annum on the semi-annual amortization payment which is made on March 1st in each year but not actually applied to amortization until six months later, plus interest at the same rate, credited annually, on all sums contained in the supplementary sinking fund. This arrangement, which has been made as a matter of equity rather than of legal right, holds good only until the issue of a first block of the Railway bonds, or, in other words, for so long a time as "the bonds remain to their full amount in the hands of the Trustee, and the reparation creditors enjoy anticipatory payments made before the date on which the amortization is carried out". In the event of any change in this situation, new arrangements will have to be considered.

The amortization of the Railway bonds began in the fourth Annuity year, when for the first time the service of the bonds rose to the standard amount of 660 million gold marks, consisting of interest at the rate of 5 per cent and amortization at the rate of 1 per cent per annum. The payments made by the Railway Company in respect of the fourth Annuity year accordingly had the effect of amortizing 110 million gold marks of the bonds, and the total principal amount of Railway bonds outstanding on September 1, 1928, is thus shown, in the standard table of amortization, at 10,890 millions of gold marks, as compared with the original 11 milliards. The bonds would be completely retired, according to the standard table, by September 1, 1964, but their retirement will be accelerated to some extent by the operation of the supplementary sinking fund, which itself amounted, on September 1, 1928, to 1,375,000 gold marks.

The Trustee also refers in his report to the financial situation of the Railway Company and to the memorandum of capital expenditures which has been prepared by the general management of the

Company. The Trustee remarks that this memorandum follows the observations made in his previous report, as to the necessity of establishing a definite and precise financial plan for the Company, and that it apparently indicates an intention on the part of the Company's management to restrict the programme of capital expenditures according to "the resources at its command and the productiveness of the proposed expenditure".

At the conclusion of his report, the Trustee calls attention to the provisions of Section 13 of the so-called Concession, or Statutes, of the Company, according to which six members of the Managing Board have been drawn for retirement at the end of the present calendar year, three from the group appointed by the German Government and three on the side of the Trustee. There is also a further vacancy on the side of the Government, owing to the resignation of another member from its group. The Government has already announced its appointments to fill the four vacancies on its side, and the Trustee states in his report that he expects to be in a position to make his appointments some time during the month of December.

e. The Trustee for the German Industrial Debentures.

The report of the Trustee for the German Industrial Debentures covers the entire fourth Annuity year, supplementing his interim report of May 15, 1928, and bringing up to the end of the year the Trustee's review of his activities. The Trustee summarizes his own operations and those of the Bank for German Industrial Debentures in execution of the industrial charges law, and he also gives some information on the development of the concerns subject to the industrial charge and on the activity of German industry in general.

The report of the Trustee shows that the funds required to meet the annual service of the industrial charge at the standard amount are being regularly produced by a safe margin through the Bank for Industrial Debentures, and records the fact that the full payment of 300 million gold marks was made during the fourth Annuity year, promptly on the due dates. The Trustee notes particularly that in the fourth Annuity year the service of the industrial debentures included for the first time amortization at the prescribed rate of 1 per cent per annum, and he describes, in this connection, the procedure adopted for the first drawings for purposes of amortization. The Trustee explains that, since no sales of industrial bonds or negotiable debentures have taken place up to this time, the total amount still being held by him for the account of the creditor Powers, it was the Trustee himself who presented to the Bank for Industrial Debentures for cancellation, on the respective due dates (September 1st and November 1st), certificates representing the bonds and debentures drawn for redemption, to the amount of 50 million gold marks. In consequence of these redemptions, the Trustee reports, the nominal value of the securities still in his hands has been reduced to 4,950 million gold marks. This total

consists of 4,366.9 million gold marks of industrial bonds and 583.1 million gold marks of individual negotiable debentures.

The Trustee summarizes in his report the decrees promulgated by the German Government during the fourth Annuity year in execution of the industrial charges law. Of the four such decrees issued, three (the tenth, the eleventh and the twelfth) were described in the preceding Report. The thirteenth decree, issued on July 20, 1928, contained supplementary regulations regarding the entry of the public law mortgage created by the industrial charges law and amended the provisions hitherto in force with regard to penalties for refusals of concerns to make the declarations required. The Trustee also refers to the four new decrees issued by the German Government during the fourth Annuity year in execution of the law for the production of the industrial charge. All of these decrees, the sixth, seventh, eighth and ninth, were summarized in the previous Report. The ninth decree, it will be recalled, made a reduction of 20 per cent in the rate to be applied to working capital in order to produce the second half-yearly payment for the fourth Annuity year. By this change the rate was lowered from 4.25 to 3.40 per mille, with the result, in effect, that the rate for the whole year was reduced by 10 per cent below that fixed by the eighth decree, that is to say, from 8.50 to 7.65 per mille.

In the course of his report, the Trustee reviews in detail his own operations and those of the Bank for German Industrial Debentures in respect to bankruptcies and voluntary liquidations of concerns liable to the industrial charge. There were, he states, 319 cases of bankruptcy involving concerns which had issued a total nominal amount of industrial debentures of 10,629,389 gold marks, as against 14,121,600 gold marks in 1926-27 and 36,195,480 gold marks in 1925-26; the number of voluntary liquidations was 602, and the total nominal value of the debentures issued by these concerns was 30,705,256 gold marks, as compared with 39,185,110 gold marks in 1926-27. In all these instances the Trustee and the Bank took steps under the law to protect their rights. The Trustee also explains in some detail the changes in the distribution of the industrial charge in accordance with the provisions of Article 6 of the industrial charges law, to insure the equitable apportionment of the total industrial charge; and he also refers, in particular, to the second general re-distribution which was in process at the time of his last report but which had not then been concluded. He states that this re-distribution was, in fact, completed on July 14, 1928, and that on the same date the Trustee and the Bank for Industrial Debentures replaced the old non-negotiable individual debentures by new ones. The result of the re-distribution, he points out, was to reduce the number of concerns liable to issue non-negotiable individual debentures from 58,555 to 40,160, and the number of concerns required to issue negotiable debentures from 209 to 169.

In the remainder of his report the Trustee surveys, on the basis of published information, the progress of the concentration movement among German industrial concerns, the amount of loans issued by the industrial concerns subject to the industrial charge, the

financial results of some of the more important industrial undertakings in the financial year 1926-27, or the calendar year 1927, and the movement of industrial production from September 1, 1924, to August 31, 1928. From his examination of the balance sheets for 1926-27 or 1927, of 360 industrial enterprises liable to the industrial charge, with a share capital of 8,281 million reichsmarks or 38.44 per cent of the share capital of all German companies, the Trustee concludes that the working profits amounted to a total of 1,205 million reichsmarks, or an average of 14.56 per cent as compared with an average of 10.95 per cent in the previous business year. The dividends distributed by these companies represented an average of 6.97 per cent of the share capital as compared with an average of 5.76 per cent in the previous year.

IV. The German Budget.

The execution of the Experts' Plan has now entered upon the fifth Annuity year, and the total Annuity has reached its standard amount of 2,500 million reichsmarks, of which 1,250 millions represent the regular annual contribution to be provided from the budget of the Reich.

The Experts, when they met nearly five years ago, had before them the general scheme of a budget for the Reich for 1924-25, but it was largely a budget of conjecture, since the background and the normal standards of judgment were lacking, in consequence of the depreciation of the currency. The Experts' Plan went into effect as from September 1, 1924, around the middle of the financial year 1924-25. Since then the actual results of the year 1924-25 have become known and four new budgets have been presented and gone into execution. Altogether, therefore, there is now available the practical experience of five financial years under conditions of currency stability and substantial business recovery. The developments in the budget of the Reich during these five years, as well as in the budgets of the States and communes, are described in some detail in this chapter. An understanding of these developments will be facilitated by a brief preliminary statement of the underlying conditions prevailing in Germany at the time the Experts made their Report, and of the general progress of public finance in the intervening years.

The conditions at the outset can best be described in the following words of the Experts themselves:

"At the time of our investigation Germany was passing through an acute economic crisis, the direct result and the culminating point of a depreciation of the currency so catastrophic as practically to destroy the currency and reduce the budget to all but a shadow. The habit of saving has been destroyed, and it will require time and the restoration of confidence to re-establish it. The existing wealth is maldistributed in an almost unparalleled degree. The cessation of depreciation, with the consequent removal of the premium on export and the stabilisation of prices at a level which is momentarily at any rate above that of the world level, has had important reactions. Finally the state of employment and the fiscal and economic machinery of Germany have been violently deranged by the events of 1923; a return to normal conditions in this respect cannot be effected overnight."

Currency depreciation, of course, had vitally affected all the budgets of Germany. The Experts, in their consideration of the problem, were primarily concerned with the budget of the Reich, and they looked to the Reich to provide the budgetary contributions on reparation account. But the Treaty of Peace provided that the payment of reparations should be a first charge upon all the assets and revenues not only of the Reich but also of its constituent States, and the Experts had to have regard, therefore, to the budgets of the States and communes as well, particularly since the latter depended for a large part of their revenues upon transfers of funds from the

budget of the Reich, based mainly upon the proportional shares of the States in certain Reich taxes. During the inflation these shares had been supplemented by special subsidies, and as the States and communes had not yet reconstituted their budgets on a stable currency basis, no adequate information existed as to their current needs. The Experts were assured by the German Government that the regime of subsidies would end April 1, 1924, but they urged the prompt preparation of statistics of the finances of the States and communes in order that their legitimate needs might be ascertained, and that the relations of the Reich with them might be put upon a regular basis, under which the resources assigned to the States and communes should be clearly defined and should not exceed their legitimate needs.

As to the budget of the Reich, when the Experts undertook their examination the only current information available was a provisional estimate, prepared by the German Government, of receipts and expenditures for the year beginning April 1, 1924. This estimate indicated total revenues of 5,274 million gold marks, transfers to the States of 1,800 millions and a net deficit of 438 millions. With this estimate before them, the Experts proceeded to examine the prospects for both the immediate and the longer future, and drew their conclusions as to the sums that could safely be provided year by year to meet the Treaty charges. In forming their judgment as to the contributions that could reasonably be expected from the budget of the Reich, the Experts assumed generally that, with stability and confidence re-established and with fiscal and economic unity restored, Germany would make steady progress toward complete recovery, and on this basis they reached "definite conclusions as to the sums which can be fixed for Peace Treaty charges, without endangering the stability of the budget", after taking into account "the probable yield of her several taxes and her taxable capacity as a whole and the probable changes in expenditure under these improving conditions, and after making full allowance for error". These results, the Experts said, they had "considered in relation to the maximum probable rate at which the national income can be expected to grow from its present point and the maximum proportion of that growth which can successfully be absorbed in taxation".

Against this background of the underlying conditions in Germany in the early months of 1924, when the Experts made their Report, it will be of interest to trace the general course of public finance in Germany during the five-year period.

In 1924-25, the first year of the period, the revenues actually realized by the Reich were 7,757 millions, exceeding the Government estimate by 2,483 millions, or about 47 per cent. The States and communes also realized from their own taxes larger revenues than anticipated, and in addition received transfers from the Reich of 970 millions more than they had expected under the official estimate. These large revenues resulted from the collection in stable currency of taxes imposed at a time when the primary necessity was to assure the return of budgetary and currency stability. At the same time, and with the same end in view, a strict con-

trol was maintained over expenditures. As a result, the budget of the Reich, and the budgets of most of the States and communes, showed large surpluses for the year, but this soon led throughout the whole of Germany to a demand for public expenditures on a great variety of projects which had necessarily been held in check during the war and inflation periods. In the meantime, important tax reductions were made, particularly in the rate of the turnover tax, and while the revenues were declining under the influence of these reductions, public spending received a further impetus from the urgent necessity of relieving the general unemployment crisis which began in the winter of 1925-26. The programmes of public expenditure thus inaugurated, not only by the Reich but by the States and communes, soon proved to be materially in excess of the available current revenues, and resulted, in the case of the Reich and apparently in that of most of the States as well, in a series of budgetary deficits which could be covered only by using the available surplus of previous years, or by having recourse to borrowing. The Reich, moreover, embarked at this time on a great programme of extraordinary expenditure, which was supposed to be financed by borrowing, and on all sides the public authorities showed an inclination toward larger and larger expenditures, almost without regard to the means which might be found for meeting them. The financial settlement with the States and communes continued to be unsatisfactory, and the States and communes, while drawing more and more from the Reich out of the revenues which it needed for its own budget, were spending even more than their increasing resources allowed and were constantly looking to the Reich for larger payments and transfers. Into the midst of this situation, the Finance Minister of the Reich, in September, 1927, introduced a new factor of disturbance by proposing a general increase of from 15 to 25 per cent in the salaries and pensions of all officials, which put large additional burdens on the budgets not only of the Reich but also of the States and communes.

These developments led the Agent General for Reparation Payments on October 20, 1927, to present a Memorandum to the German Government, calling attention to the dangers involved in the existing budgetary tendencies, which were described as follows:

"The evidences, in fact, are accumulating on every side and more rapidly within recent months, that the German public authorities are developing and executing constantly enlarging programmes of expenditure and of borrowing, with but little regard to the financial consequences of their actions. The rising level of public expenditure is already giving an artificial stimulus to economic life, and it threatens to undermine the essential stability of the public finances. If present tendencies are allowed to continue unchecked, the consequence is almost certain to be serious economic reaction and depression, and a severe shock to German credit at home and abroad. The remedies consist primarily in reversing the present tendencies toward over-spending and over-borrowing, and applying instead a regime of strict economy and of ordered public finance."

The Memorandum at the same time urged the Government of the Reich not only to take the necessary measures of reform with respect to its own finances, but also to assume its "unique opportunity and even responsibility for leadership" in respect to the States and communes.

The German Government, in its answering memorandum of November 5, 1927, declared that it considered "it at the present time a paramount duty effectively to oppose continuous increases in expenditure, even in the ordinary budget" of the Reich. With regard to the finances of the States and communes, the Government said:

"It is a natural demand, and one which neither the States nor the autonomous administrative bodies dispute, that in questions of public finance the Reich should assume the leadership."

"The Government of the Reich is devoting its greatest attention to the development of the financial affairs of the States and communes and endeavours to ensure that the principles which it considers right for itself are likewise observed by them."

The progress which has been made during the past year in the direction of better-ordered public finance will be noted in the various paragraphs of this chapter. The current budget of the Reich gives evidence of some effort to curb the tendency towards rising expenditures, but many new demands are being made on the budget and the indications are that new taxes will have to be imposed in the next budget unless expenditures can be compressed to a considerably greater extent than appears to be expected. Moreover, the financial settlement with the States and communes, which comes up for reconsideration next year, still remains on a basis which automatically deprives the Reich of the benefit of most of the year-to-year growth in some of its principal revenues, and gives increasing transfers to the States and communes without reference to their needs. The principal States, on their part, are receiving larger revenues than ever before, from their own taxes and from transfers from the Reich, but their expenditures are still steadily rising and they are still voting budgets which anticipate current deficits. On the other hand, the encouraging factors in the situation are the steady productivity of the revenues and the recognition by the Government of the Reich of its responsibility for leadership in all matters relating to public finance in Germany. Administrative reform and economy are being studied by committees appointed by the conference of the Prime Ministers of all the States called by the Reich a year ago, and a beginning has been made with laws for tax standardization. But much remains to be done, and a firmer and more vigorous control than has yet been exercised by the public authorities will be necessary in order to keep public expenditures within the limits of available revenues and assure a regime of sound public finance throughout Germany.

a. The Budget of the Reich.

The budget of the Reich is, of course, by far the most important of the German budgets, first, because of its national character and the large sums involved, and second, because it includes that portion of Germany's reparation payments which is to be provided from taxation.

The abnormal conditions prevailing in Germany at the time the Experts met, the dependence of the budgets of the States and communes on transfers of funds from the budget of the Reich, and the lack of current information regarding any of the German budgets except the provisional estimate of the receipts and expenditures of the Reich for 1924-25, have already been emphasized. These various factors, taken together, greatly increased the difficulty of the Experts' task and made it necessary for them to proceed on certain assumptions. Their fundamental assumption was that the German economy would recover, gradually but completely. They believed that with economic and fiscal unity restored, with a stable currency, and with temporary relief from Treaty payments

"Germany should balance her budget from her own resources by a vigorous internal effort supported by the confidence which a general and stable settlement may be expected to give, and she should thereafter be able to maintain its equilibrium, if the future charge for Treaty payments is determined by a method which assures that it will not exceed her capacity".

The first two years, 1924-25 and 1925-26, the Experts regarded as a period of "budget moratorium". Their plan accordingly required no contribution from the budget of the Reich in the first year. Even for the second year, 1925-26, they contemplated that the contribution of 250 million gold marks from the budget and the 250 millions to be paid from the yield of the transport tax would be covered by the proceeds of sale of the 500 millions of preference shares of the Railway Company assigned to the Reich, or by an internal loan, rather than out of the ordinary budget resources of the Reich. On these conditions, the Experts felt that, if the two years were taken together, budgetary equilibrium would be attained and there might even be "the possibility of a small surplus".

The next two years they regarded as a "transition period", believing that

"if for two years the budget is relieved from Peace Treaty charges and a stable currency is re-established, Germany ought in 1926 to be making rapid strides towards complete recovery, and should in three years, by 1928, reach a normal economic condition".

After estimating the prospects of tax yields in these years, they came to the conclusion that

"allowance being made for some inevitable growth in expenditure, the budgets for the three subsequent years can safely provide for the following maximum sums:

1926-27	110 million gold marks
1927-28	500 " " "
1928-29	1,250 " " "

The sums required in 1926-27 and 1927-28 were to be subject to modification, up or down, by a sum not exceeding 250 millions in each year, depending upon the yield of the controlled revenues. These contingent supplementary contributions were ultimately liquidated, it will be recalled, by the payment of an agreed sum of 300 million gold marks in the third Annuity year, which had the effect of raising the budgetary contribution in that year to a total of 410 millions.

The fifth year, 1928-29, by the end of which the Experts believed that "the financial and economic situation of Germany will have returned to a normal state", they regarded as the "standard year"; and they provided that in this and subsequent years the budget of the Reich should support the standard annual contribution of 1,250 million gold marks.

Further, the Experts recognized

"both the necessity and the justice of maintaining the principle embodied in the Treaty that Germany's payments should increase with what may prove to be the increase in her future capacity".

"This requirement we have tried to meet by providing that in addition to a fixed annual payment, there shall be a variable addition dependent upon a composite index figure designed to reflect Germany's increasing capacity."

The Plan accordingly provided for the establishment of an "Index of Prosperity" by the application of which the standard annual contribution from the budget would be increased by an additional sum, as from 1929-30 onwards.

In addition to the regular annual contribution from the German budget, the Experts provided for an annual contribution to be made from the yield of the transport tax, beginning with a contribution of 250 million gold marks in the second Annuity year, to which reference has already been made, and increasing in the third year to 290 millions, which was fixed as the standard transport tax contribution for this and subsequent years.

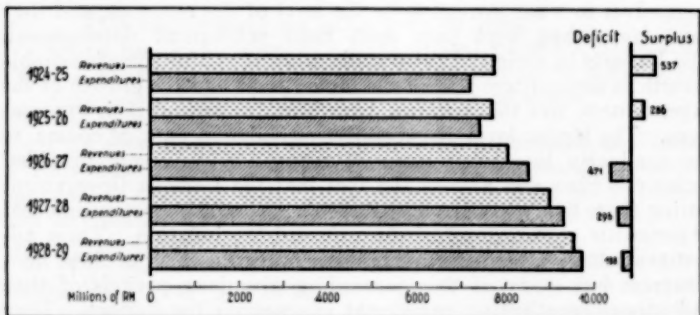
This outline of the Experts' conclusions with regard to the budget of the Reich serves as the natural background for the summary of the actual development of the budget during the intervening five years, the details of which are given in the succeeding pages of this chapter. It is necessary to bear in mind, when examining the figures, that the German financial year differs from the Annuity year established under the Experts' Plan and the London Agreements. The financial year, to which the budget figures must always be referred, begins on April 1st, while the Annuity year, which governs the payments under the Experts' Plan, begins on September 1st. The relation of the reparation payments to the budget of the Reich, with comparative figures for financial years and Annuity years, appears in greater detail in one of the following paragraphs.

The expectations of the Experts as to the economic recovery of Germany and the revenues of the Reich have been amply supported by events. Indeed, the most striking and satisfactory development affecting the budget of the Reich during the five years is the great productivity of the revenues. At the very outset, the increase of 47 per cent in the actual revenues of 1924-25 over the provisional estimates of the Government established the revenues of the Reich on a level far higher than either the Government or the Experts had anticipated. That the revenues declined somewhat in the two succeeding years was due in part to a revision of the arbitrary methods of assessment which had been adopted, without regard to the capacity of taxpayers, in order to insure at all hazards the prompt realization of the revenues; and even more to the important tax reductions that were made, which, in turn, undoubtedly contributed to the recovery of the German economy and the increased consuming power of the people. But the sharp rise of the revenues in the last two years, as the economic recovery progressed, must be regarded as a close reflection of the growth of incomes, consuming power and taxable wealth in Germany.

On the other hand, the expenditures of the Reich soon adjusted themselves to what proved to be the level of the revenues, and they have more than kept pace with their subsequent development. The Experts in their estimates made allowance "for some inevitable growth in expenditure". But the higher level and the growth of the expenditures, like the revenues, have been far beyond their expectations. The higher level of expenditures is due in part, of course, to the gradually increasing scale of reparation payments provided under the Plan and also to the fact that the German Government during these five years has undertaken a series of important internal adjustments growing out of the war and the inflation. These adjustments have all involved large expenditures, some of them non-recurrent but many of them extending over long periods of time and others constituting permanent charges on the budget. They have included provision on a large scale for the liquidation of claims due to the Ruhr occupation, the revalorization of the paper mark debt, and the liquidation of damages for property lost abroad as a result of the war. In addition, the Reich has assumed large new burdens for unemployment relief, for emergency relief to agriculture, for increased subsidies to the social insurance funds and for increased salaries and pensions, including the general increases that became effective in October, 1927. Coincident with the assumption of these heavy burdens of expenditure, important tax reductions have been progressively effected and the transfers of revenue to the States and communes have greatly increased. In consequence, the accounts of 1926-27 and 1927-28, taken together, closed with a current deficit of 767 millions which had to be covered by the proceeds of loans and by transfers of surplus from earlier budgets. In these same two years the pre-war practice of covering extraordinary expenditures by borrowing was resumed, and 1,306 millions of expenditures were authorized through the extraordinary budget, largely for the purpose of combating unemployment, in the expectation that they would later be met out of

the proceeds of loans. Not all of these expenditures have yet been completed and some have been abandoned, but the budgetary deficits they created and the resulting pressure on the cash position of the Reich were characterized by the Finance Minister last January as "the darkest point in the budget and financial situation of the Reich". In the present year the abandonment of the practice of covering extraordinary expenditures by borrowing and the efforts to control expenditure which the Government has instituted, taken in conjunction with the continued rise in revenues, appear to have restored something like budgetary equilibrium for the present. But for the 1929-30 budget, which has not yet been presented, the Finance Minister has stated that, owing to increased appropriations and reduced administrative revenues, some 600 millions must be realized through new taxation or economies, or both, in order to maintain the budget in balance.

The following diagram shows in graphic form the growth of current revenues and expenditures and the surplus or deficit in each of the five years:



Revenues and expenditures of the Reich, excluding proceeds of loans and transfers of surplus for general purposes.

The great productivity of the revenues, even after far-reaching tax reductions, has established beyond doubt the essential basis for the sound development of the budget of the Reich. The main budgetary problem is one of controlling the expenditures, for ever since the early period of overflowing revenues the expenditures have risen more sharply than the revenues and for several years have exceeded them. There is nothing in the present situation, however, that will not yield to the application of sound principles of budget-making, and it is everywhere recognized, by the responsible authorities, that the equilibrium of the budget must be maintained under all conditions. The fundamental needs, as these Reports have often emphasized, are a provident financial settlement with the States and communes, and a more vigorous control of public expenditures than has yet been exercised.

From the standpoint of the execution of the Experts' Plan, it is satisfactory to note that in spite of tax reductions the increase in revenues in the last three years is more than double the increase in reparation payments during the same period, and that the assigned revenues are yielding more than double the amount of the standard budgetary contribution for which they serve as security. In fact, the whole development of the budget since the last Report only serves to reinforce the conclusion then expressed "that no question can fairly arise of the ability of the budget of the Reich to provide the full amount of its standard contribution under the Plan".

1. Comparative Budget Statements.

The consolidated statement of the revenues and expenditures of the Reich, both ordinary and extraordinary, during the five financial years 1924-25 to 1928-29, will be found on page 55. The arrangement of the statement has been altered, as compared with previous Reports, by introducing a further classification of the various items, in the interest of a clearer presentation. On the revenue side the former item "Taxes on income, turnover, etc." is now presented as two items, which divide the revenues shared proportionally with the States and communes from those not so shared. On the expenditure side several new classifications are introduced; the war pensions include only military and naval pensions and allowances arising out of the late war, other such pensions as well as civil pensions being included in general administration; and social relief, formerly under general administration, is now included under social expenditures.

For the years 1924-25 to 1927-28 the figures are taken from the final accounts and represent the actual receipts and payments; for 1928-29 they are taken from the budget as voted and the draft supplementary budget now under consideration in the Reichstag, and therefore represent only the official estimates. The changes made by the final accounts in the provisional figures for 1927-28 given in the last Report are of no material importance; the total revenues and expenditures are unchanged, but there have been slight redistributions in several of the individual items.

With respect to the figures for 1928-29, it should be remembered that under the German practice revenues due but not received, and expenditures authorized but not made, are carried forward, *outside* of the budget, into the next year. The figures at the foot of the statement show the amounts involved in these items carried forward from year to year. In particular, it appears that the budget estimates for the current year do not include estimated revenues of 884 millions, largely dependent upon borrowing, and authorized expenditures of 939 millions, both carried forward from 1927-28. The unusual volume of expenditure carried forward is due largely to the fact that the supplementary budget for 1927-28 was not voted till the last day of the financial year. Of the net

increase of 549 millions in expenditures which it authorized, 288 millions were unspent in 1927-28 and carried forward to the current year. The total expenditures of 939 millions which have been brought forward from 1927-28 into the current year may be summarized as follows:

	(In millions of reichsmarks)
ORDINARY BUDGET:	
Compensation for losses of property abroad arising out of the war.....	170
Payments in cash to small holders of revalorized debt and to savings banks.....	143
Credits for the frontier provinces.....	84
Army and Navy.....	65
Miscellaneous.....	218
	<hr/> 680
EXTRAORDINARY BUDGET:	
Productive unemployment relief.....	142
Communications.....	55
Miscellaneous.....	62
	<hr/> 259
Total.....	939

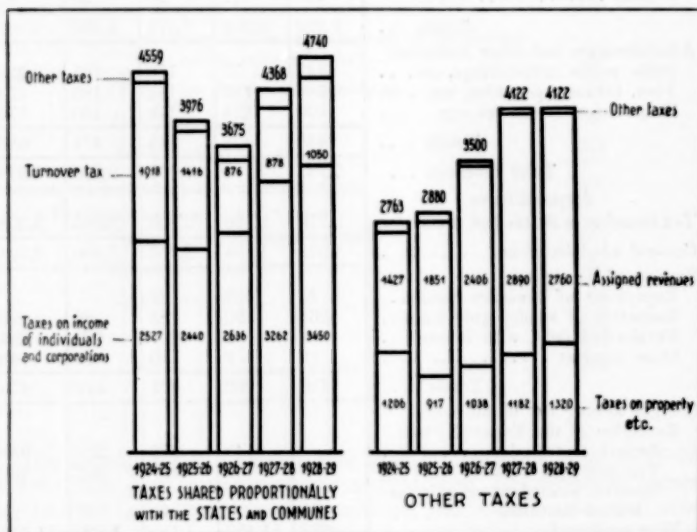
The revenues not received and brought forward from 1927-28, apart from loan authorizations aggregating 724 millions, consist of the Post Office surplus of 70 millions, not transferable until after the close of the year, and estimated receipts of 90 millions from seigniorage on the coinage. The fact that this is the first time revenues to be received from seigniorage have been carried forward appears to support the reservation expressed in the last two Reports as to the amount of revenue from seigniorage which might be expected in 1928-29, in view of the actual returns in recent years.

The modifications introduced by the draft supplementary budget involve a net increase of 45 millions in estimated expenditures, arising principally from readjustments in the charge for salaries and pensions. This increase in expenditure is to be met partly by cancelling the transfer of 10 millions from the company tax to the States and communes, and partly by increasing miscellaneous administrative receipts. The draft supplementary budget in the form transmitted to the Reichstag by the Reichsrat makes no provision, however, for various additional expenditures which appear to be in prospect, such as the 30.5 millions due upon ratification of the recent agreement with Rumania, and the 28 millions which the law voted December 14, 1928, requires the Reich to make available for special seasonal unemployment relief.

Consolidated budget statement of the Reich (In millions of reichsmarks)	1924-25 actual	1925-26 actual	1926-27 actual	1927-28 actual	1928-29 estimates ²
<i>Revenues</i>					(not in- cluded in estimates)
Revenues carried forward ¹	—	396	382	59	
Tax revenues:					
Income, turnover, etc.:					
shared proportionally with States and communes	4,559	3,976	3,675	4,368	4,740
other	1,204	917	1,038	1,182	1,320
Customs and consumption taxes:					
assigned	1,427	1,551	2,406	2,890	2,760
other	130	112	56	50	42
Totals	7,322	6,856	7,175	8,490	8,862
Administrative and other revenues:					
From public undertakings, etc. ..	147	77	180	185	333
Fees, licenses, penalties, etc.	188	187	186	186	178
Seigniorage on the coinage	100	214	149	100	175
Totals	435	478	515	471	686
Total revenues ...	7,757	7,70	8,072	9,020	9,548
<i>Expenditures</i>					
Tax transfers to States and communes	2,770	2,596	2,626	3,016	3,208
General administration	1,521	1,884	2,156	2,296	2,323
Service of the debt:					
Repayment of Treasury bonds ...	74	162	87	—	—
Reduction of sundry gold loans ...	364	90	83	86	73
Revalorized debt, with interest ..	—	1	241	409	354
Other interest	12	9	10	16	48
Totals	450	262	421	512	475
Charges arising out of the war:					
Execution of the Experts' Plan:					
Budget contribution	—	145	276	530	938
Transport tax	—	146	261	302	290
Reserve, Commissioner of Con- trolled Revenues	—	—	13	67	20
War pensions ³	833	1,153	1,155	1,300	1,410
Liquidation of war damages	180	184	169	83	89
Other internal charges	1,095	176	172	177	130
Totals	2,108	1,804	2,046	2,459	2,877
Social expenditures:					
Unemployment relief	36	163	426	324	125
Other expenditures	223	344	385	442	543
Totals	259	507	811	766	668
Investments, loans, etc.	112	391	483	267	185
Total expenditures ...	7,220	7,444	8,543	9,316	9,736
Excess of revenues over expenditures	537	286	—	—	—
Excess of expenditures over revenues	—	—	471	296	188
<i>Balancing Items</i>					
Transfers from previous surplus ...	—	276	400	200	162
Transfer from working fund	—	—	—	190	—
Proceeds of loans	355	—	329	123	—
Previous appropriations cancelled ...	—	—	—	—	30
Surplus indicated in accounts	892	562	258	217	4
¹ Made up as follows:					Items not ascertain- able until close of year
Expenditures not made but carried forward ...	425	497	705	939	
Revenues, etc., not received but carried forward	29	115	646	884	
Revenues carried forward as cover	396	382	59	55	
² Including draft supplementary budget. ³ Provisional. ⁴ Difference due to rounding off.					

2. Analysis of Revenues.

The development of the revenues of the Reich during the five-year period has been reviewed in previous Reports. Further detailed analysis appears unnecessary at present; but it will be useful to indicate briefly the main points of interest shown in the usual table of revenues on page 57 and the diagram based upon it. The figures for the first four years represent the actual collections; those for the year 1928-29 are the budget estimates as modi-



Tax revenues of the Reich.
(In millions of reichsmarks)

fied by the draft supplementary budget. It will be observed that the items formerly included under the general heading "Taxes on income, turnover, etc.," have been redistributed into two classes, (a) those shared proportionally with the States and communes, and (b) those not shared proportionally, in order to illustrate the divergent tendencies in their development. The large growth of tax revenues in the last three years, following the decrease in 1925-26, is the development most to be noted, especially in view of the tax reductions which came into effect in these years and which are fully described in a later paragraph. Indeed, 1925-26 was the only year in which the decreased yield of certain taxes due to tax reductions was not offset by increases in other tax revenues.

The tax revenues which are shared proportionally with the States and communes, consisting principally of income, corporation income and turnover taxes, while affected by the large reductions in the turnover tax made in 1925-26 and 1926-27, as well as by the economic depression which prevailed throughout parts of both of those years,

Revenues of the Reich (in millions of reichsmarks)	1924-25 actual	1925-26 actual	1926-27 actual	1927-28 actual	1928-29 estimates ¹
Tax Revenues					
TAXES SHARED PROPORTIONALLY WITH THE STATES AND COMMUNES					
Income tax:					
salaries and wages (amount deducted at source).....	1,332	1,368	1,095	1,348	1,300
interest and dividends (amount deducted at source).....	19	82	94	135	150
general assessment (after above deductions)	852	803	1,065	1,301	1,450
Corporation income tax	314	187	3·2	478	550
Turnover tax	1,918	1,416	876	878	1,050
Tax on real estate transactions .	29	31	28	38	40
Automobile tax	52	58	105	156	160
Race-betting tax	30	31	30	34	40
Bourse tax	3	—	—	—	—
Totals....	4,559	3,976	3,675	4,368	4,740
TAXES NOT SHARED PROPORTIONALLY WITH THE STATES AND COMMUNES					
Property tax	499	270	360	442	520
Succession duties	26	27	35	72	100
Taxes on movement of capital:					
company tax ²	39	40	58	62	80
tax on securities	5	9	23	21	30
tax on Bourse transactions ...	113	40	83	66	85
tax on directors' fees	12	14	1	—	—
Insurance tax	32	40	46	53	50
Lottery tax	19	35	36	42	40
Tax on bills of exchange	70	63	36	48	50
Transport tax	313	318	312	349	340
Non-recurrent and miscellaneous	78	61	48	27	25
Totals....	1,206	917	1,048	1,182	1,320
ASSIGNED REVENUES					
Customs	357	591	940	1,251	1,200
Tobacco tax	514	615	713	794	780
Beer tax ²	196	256	241	350	370
Sugar tax	219	236	285	224	140
Spirits monopoly	141	153	227	261	270
Totals....	1,427	1,851	2,406	2,890	2,760
OTHER TAXES ON CONSUMPTION					
Total tax revenues....	130	112	56	50	42
	7,322	6,856	7,175	8,490	8,862
Administrative and Other Revenues					
INVESTMENTS, REPAYMENTS, ETC:					
Share in profits of Reichsbank ..	56	12	4	6	4
Surplus from Reichspost	—	—	12	70	100
Repayment of advances, interest, etc.	60	49	128	19	8
Repayment of relief loans, etc...	20	5	17	31	153
Preference dividend, Railway shares	—	—	3	30	51
Miscellaneous	11	11	16	29	17
Totals....	147	77	180	185	333
FEES, PENALTIES, ETC.					
Fees, fines, patent dues, etc. ...	53	59	48	53	46
Canal dues.	26	26	32	32	27
Finance Ministry, miscellaneous .	51	37	44	49	50
Other miscellaneous	58	65	62	52	55
Totals....	188	187	186	186	178
SEIGNIORAGE ON COINAGE					
Total administrative revenues...	101	214	149	100	175
	435	478	515	471	686
Total current revenues....	7,757	7,334	7,690	8,961	9,548

¹ Including draft supplementary budget.

² Payments from this tax are made to certain States; see page 60.

show a remarkable increase in the last two years of the period, coinciding with the vigorous economic recovery which has been in progress. In these two years the aggregate increase in these revenues is 1,065 millions, or 29 per cent. Throughout the five years the same general tendencies have been shown by the tax revenues, consisting largely of various taxes on property, which are not shared proportionally with the States and communes; in the last two years they have increased 27 per cent. On the other hand, the assigned revenues, consisting of customs duties and consumption taxes, have nearly doubled during the five years, but in the last two years they have increased only 15 per cent and in 1928-29 there is even a slight decrease as compared with the previous year. Thus, in 1928-29, the group consisting of the proportionally shared revenues increases 372 millions, while all the other tax revenues grouped together show no increase whatever. As a result of different tendencies in these two groups, more and more of the total increases in the aggregate tax revenues is accruing to the States and communes, and less and less to the Reich; the States and communes received 9.4 per cent of the total increase in 1926-27, 29.6 per cent in 1927-28, and 51.6 per cent in 1928-29. The movement of these two groups of tax revenues throughout the five-year period is shown in the diagram on page 56.

The administrative and other revenues, which present no new movement of special interest, have been fully described in previous Reports.

3. Analysis of Expenditures.

The expenditures of the Reich for the five-year period are presented in the succeeding paragraphs. Owing to the extended analysis of the various categories which has been given in previous Reports, and particularly in the last Report, the only item fully treated is that which represents the transfers to the States and communes.

(a) Transfers to the States and communes.

By far the largest item of expenditure in the budget of the Reich is the amount paid over to the States and communes, representing, in the main, specified proportions of the yield of certain Reich taxes. For the five-year period the amounts transferred, expressed in millions of reichsmarks, are as follows:

	1924-25 actual	1925-26 actual	1926-27 actual	1927-28 actual	1928-29 estimates
Proportional transfers ...	2,767	2,550	2,598	2,929	3,133
Other transfers	3	46	28	87	75
Total transfers	2,770	2,596	2,626	3,016	3,208

The present provisional settlement under which the Reich makes these transfers expires March 31, 1929. The financial relations of the Reich with the States and communes must therefore be re-examined during the coming months, and it is necessary, in this connection, to review the whole problem again in the present Report.

At the time of the adoption of the 1871 Constitution of the Reich the States and communes were collecting practically all of the taxes except the customs duties. Under this Constitution any deficiency in the budget of the Reich was "to be met . . . by contributions from the several States, in proportion to their population". For the next eight years the Reich received annually from the States about 75 million marks; but when under the protective tariff of 1879 and subsequent revenue acts the Reich acquired important further tax resources, it was required to transfer annually to the States a part of the revenues collected. Thus, as the obligation of the States to contribute towards the budget of the Reich remained unchanged, large regular transfers were made each year by the States to the Reich and by the Reich to the States. From 1882 until 1898 the balance was in favor of the States. From then until 1913 the balance turned in favor of the Reich, and in the later years of the period amounted to about 50 millions annually.

When the Constitution of the Republic was adopted at Weimar, August 11, 1919, the power to levy taxes was largely concentrated in the Reich, which was authorized to "legislate in regard to tax and other revenues in so far as they wholly or partly serve the purpose of the Reich". But, "if the Reich takes over taxes or other revenues hitherto reserved for the States, it must pay due regard to the maintenance of the ability of those States to exist". Under this new authority, by law of March 30, 1920, the Reich levied the income tax, the corporation income tax, the turnover tax, the succession duties and the tax on real estate transactions. At the same time, the Reich gave the States, provisionally, a proportional share in the yield of these taxes and guaranteed that it should at least equal the yield of the former State and communal taxes which these taxes replaced.

From the passage of this law until April 1, 1924, when the first financial year under stable currency began, various changes in these provisional arrangements were made, particularly during the inflation period when the Reich agreed to pay, as special subsidies, up to 75 per cent of the increased salaries of the officials of the States and their constituent units. These special subsidies, by decree of February 14, 1924, were to be completely abolished as from April 1, 1924.

When the Experts met at the beginning of 1924 they were greatly exercised by the effect of these arrangements upon the budget of the Reich. They recognized that the subject was a complicated one involving the consideration of social and political factors, many of which had deep roots in historic traditions. Nevertheless, they believed that the German Government must promptly take steps to put the relations between the Reich and its component parts on a regular basis which would insure that the demands of the latter were not a constant drain upon the federal resources.

The Experts were assured by the German Government that the regime of subsidies had come to an end and would not be revived. But they felt also that the resources normally to be assigned to the States and communes must be clearly defined, that care should be taken to secure that these revenues were not

more than adequate to legitimate needs and that where further assistance had to be given, the amount should be strictly proportioned to the necessities of each case and subordinated to continually increasing supervision of local expenditure by the federal Treasury.

The payment of subsidies ended April 1, 1924, according to the assurances that had been given; but the other conditions which the Experts believed essential have never been met and no definitive settlement of the financial relations of the Reich with its constituent units has yet been effected. The three different provisional settlements which have been in effect during the five-year period are summarized in the following table:

Proportional transfers to the States and communes	Settlement in effect Feb. 1, 1924, to Sept. 30, 1925 (20 months)	Settlement in effect Oct. 1, 1925, to March 31, 1927 (18 months)	Settlement in effect April 1, 1927, to March 31, 1929, (24 months)
Income tax	90 per cent	75 per cent	75 per cent
Corporation income tax	90 " "	75 " "	75 " "
Turnover tax	20 " "	35 per cent for first 6 months, then 30 per cent	30 " "
Tax on real estate transactions	96 " "	96 per cent	96 " "
Automobile tax	96 " "	96 " "	96 " "
Race-betting tax	96 " "	96 " "	96 " "
Bourse tax (abolished Dec. 31, 1924)	100 " "	—	—
Guaranties.	No guaranty.	Minimum guaranty of 2,100 millions in respect of income, corporation income and turnover taxes; also minimum guaranty of 450 millions in respect of turnover tax alone.	Minimum guaranty raised to 2,600 millions but special turnover tax guaranty abandoned.

In addition to the proportional transfers, there are also special payments, (a) from the income tax, now aggregating about 16 millions, to States which, on the basis of the distribution of proportional transfers, receive appreciably less than the average for the Reich; (b) from the company tax, estimated in the original 1928-29 budget at 10 millions, to States penalized by the loss of taxable resources through the amalgamation of companies; and (c) from the beer tax, now 59 millions at the maximum, to Bavaria, Wurtemberg and Baden as compensation for their surrender to the Reich of this tax, formerly one of their important sources of revenue. The supreme court of the Reich, on November 17, 1928, decided that the law modifying the transfer from the beer tax amounted, in effect, to an amendment of the Constitution, and as such was invalid because it had not received the necessary two-thirds vote in Parliament. The Government was, however, authorized to continue these transfers at their present rates until new legislation had been enacted.

Previous Reports of the Agent General have pointed out the effects of the various provisional settlements on the budget of the

Reich, as shown by actual experience. Each Report, moreover, has urged the importance of a definitive financial settlement, and has emphasized particularly the necessity of restoring to the Reich the control over its principal revenues and of limiting the payments to the States to their legitimate needs. While the proposal for the provisional settlement now in effect was under discussion in the Reichstag, the Agent General, on March 17, 1927, addressed a letter to the Finance Minister pointing out that under it the Reich increased its guaranty to the States and communes by 500 million reichsmarks, and that the guaranty appeared to be only a minimum and not a maximum, for if the share of the States in the actual yield of the taxes should exceed the amount guaranteed they would draw these additional funds automatically without reference to their respective needs. The letter pointed out the unfavorable effect that the proposal would have on the budget of the Reich and the important considerations it therefore raised from the standpoint of the Experts' Plan. The settlement was, however, enacted into law on April 9, 1927, and subsequently, on May 22, 1927, the Finance Minister replied that, in his opinion, the provisions of the new settlement represented a very considerable improvement over the previously existing state of affairs; that further information about the requirements of the public authorities was necessary before a definitive settlement could be made; that the guaranty of 2,600 millions was "merely an expression of the principle of budgetary exactitude" and represented only an exact estimation of what the States and communes would get by virtue of their percentages; and that transfers in excess of budget figures, leading to unsystematic expenditure by the States and communes for certain unforeseen needs, could be avoided only by including in their budgets, from the very beginning, the receipts actually to be expected. The Finance Minister's letter further declared that the States would be obliged to use the sums transferred from the income, corporation income and turnover taxes in excess of the actual transfers of 1926, which had amounted to about 2,400 millions, primarily for the purpose of lowering the taxes on real estate and occupations, and, finally, that steps would be taken, through the enactment of various preparatory legislation to provide for a definitive financial settlement in 1929, when the provisional settlement is to expire.

Up to this time, this series of official expectations has not been supported by events. With regard to lowering taxes on real estate and occupations, no general action appears to have been taken. In fact, the yield of these taxes rose, in the States and communes with over 5,000 inhabitants, from 1,350 millions in 1926-27 to 1,586 millions in 1927-28, although at the same time the States received additional transfers from the Reich, out of the yield of the income, corporation income and turnover taxes, to the extent of about 310 millions beyond the indicated figure of 2,400 millions. Apparently the additional transfers have been applied instead to meet the rising expenditure requirements of the States and communes, for which the increased salaries and pensions of officials were in large part responsible; in the case of Prussia the increase in salaries and pensions alone was over 200 millions a year.

From the standpoint of proper budget-making there can be no doubt about the soundness of the Finance Minister's argument that in order to avoid unsystematic expenditures by the States and communes it is necessary for them to know accurately in advance and to include in their budgets the transfers they may expect. The actual record, however, shows a long series of transfers in excess of the estimates, and a growing tendency on the part of the States and communes to regard each new high level of transfers as the minimum for the future. The following table gives for each of the four completed years the transfers which the Reich estimated would be made and which the States and communes were, therefore, justified in including in their budgets, as compared with the transfers which were actually made:

Estimated transfers and actual transfers (In millions of reichsmarks)	1924-25		1925-26		1926-27		1927-28	
	estimates Feb. 1924	actual	estimates Feb. 1925 ¹	actual	estimates Dec. 1925	actual	estimates Feb. 1927	actual
From income, corporation income and turnover taxes	1,800	2,658	1,950	2,434	2,213	2,441	2,600 ²	2,710
From all other taxes		112		249	172	185	245	306
Totals	1,800	2,770	2,199	2,596	2,385	2,626	2,845	3,016

¹ Estimate prepared for use as basis of financial settlement.

² Originally included as 2,400 million reichsmarks.

The table shows that in 1924-25 the transfers from the yields of the three principal taxes exceeded the total estimates by 858 millions. In the two following years, taken together, the excess for the three principal taxes aggregated 712 millions. In 1927-28, the first year under the present settlement, the transfers from the three principal taxes exceeded by 110 millions the Reich guaranty of 2,600 millions, which the Finance Minister in his letter of May 22, 1927, had described as being merely the expression of the principle of "budgetary exactitude". In 1928-29 the transfers from these taxes were estimated in the Reich budget at 2,900 millions, or 300 millions in excess of the guaranty, and the actual revenues of the first six months alone have involved transfers of 110 millions over one-half of the estimate.

Not only are the transfers being made in increasing amounts, but they are now absorbing larger and larger percentages of the total increase in the tax revenues of the Reich, as the following figures show:

	1924-25 actual	1925-26 actual	1926-27 actual	1927-28 actual	1928-29 estimates
Ratio of the increased transfers to the increase in total tax revenues	—	decrease	9.4	29.6	51.6

This is due, of course, to the more rapid rise in recent years of the yields of taxes in which the States and communes share, but it em-

phasizes the extent to which the present system deprives the Reich of the increasing yield of the taxes which respond most closely to the prosperity and business activity of the country, and on which it would normally rely for the funds to meet its own obligations.

Moreover, notwithstanding the statements made in the spring of 1927, there still appears to be no prospect of a definitive settlement in the near future of the financial relations between the Reich and the States and communes. The German Government, in the Finance Minister's speech of October 26, 1927, and in its memorandum of November 5, 1927, declared that for various reasons a definitive settlement was not then possible, and that first there would have to be "a return to normal economic conditions" and a completion of the financial statistics of the States and communes, for the purpose of ascertaining "their normal requirements". In the meantime, some steps have been taken, as, for example, by the presentation of six tax standardization bills to the Parliament, and by further decrees with respect to financial statistics, to prepare the way to an ultimate settlement. But the tax standardization bills have not yet been passed, other preparatory legislation is not yet proposed, comprehensive financial statistics will not be available for some time to come, and only a beginning seems to have been made with the process of administrative reorganization that was announced about a year ago.

The experience of these five years all goes to show that "the resources normally to be assigned by the Reich to the States and communes must be clearly defined, and care must be taken to secure that these resources are not more than adequate to legitimate needs". Whether the new settlement, which will presumably be arranged before April 1, 1929, is definitive or is again merely provisional, it seems clear that it must have regard to these controlling considerations. The present system is improvident from the standpoint of the finances of the Reich, and it still remains, as the Experts said, the "hole in the budget", which needs to be plugged. Moreover, the payments to the States and communes do not pretend to be adjusted to their "legitimate needs"; they are determined by the operation of arbitrary percentages, which deprive the Reich of the greatest part of the benefits from the increases in the income, corporation income and turnover taxes, taken together, and give to the States and communes year after year transfers of revenue substantially in excess of those for which they themselves have budgeted. The result is to encourage the States and communes to new expenditures, and even to budget regularly for deficits, in the hope that they will be covered by excess transfers from the Reich. In the five years under review the transfers from the income, corporation income and turnover tax revenues have exceeded the budget estimates of the Reich by 858 millions, 484 millions, 228 millions, 110 millions and 110 millions, respectively, and the last figure reflects only the results of the first half of the current year. Manifestly, these excess transfers in cumulative succession have encouraged unsystematic expenditures by the States and communes, and may well have led many of them into their present practice of voting budgets which are not in equilibrium. The situation is

one, as the Experts said, which "bristles with difficulties". But with every allowance for the underlying historical and political factors, it must nevertheless be possible, even without waiting for more far-reaching measures, to work out a financial settlement between the Reich and the States and communes that will pay more regard to the principles of proper budget-making, and take care of the "legitimate needs" of the States and communes without at the same time putting such an arbitrary drain on the resources of the Reich.

In considering the needs of the States and communes in connection with those of the Reich, it should be remembered that the Reich has recently taken over from the States and communes almost the whole of their responsibilities for unemployment relief and that, except for increased salaries and pensions, the States and communes have not shared in the burden of other post-war adjustments which the Reich has assumed in recent years. Nor have the States been called upon to share in the payment of reparations which, under the Peace Treaty, are a first charge on their assets and revenues as well as on those of the Reich. Whatever the nature of the coming financial settlement may be, the urgent requirements of the budget of the Reich point to the necessity, first, of effective provisions for keeping the transfers to the States and communes within the limits of their legitimate requirements; and, second, of appropriate measures, by the fixing of maximum transfers or otherwise, for restoring to the Reich the control over the year-to-year growth of the income, corporation income and turnover tax revenues, since these are taxes which respond directly to the improvement in general business conditions and which should be available to meet the national burdens which fall on the budget of the Reich.

(b) *Administrative expenditures.*

This large group contains the bulk of the expenditures for the general administration of the Reich, including the Army and Navy and official salaries and pensions. In the following table these expenditures are separated into their principal categories, expressed in millions of reichsmarks:

	1924-25	1925-26	1926-27	1927-28	1928-29
	actual	actual	actual	actual	estimates ²
Army and Navy:					
Materiel and remuneration	459	588	647	706	727
Pensions (excluding war pensions) ³	165	177	220	254	264
Finance Department	345	395	410	486	512
Interior	199	206	274	269	208
Communications	98	109	146	163	153
Commerce, industry, agriculture	21	40	38	47	114
Civil pensions	69	99	88	98	105
Social welfare	50	57	61	69	76
Foreign affairs	39	47	60	62	58
Miscellaneous	76	166	212	141	106
Totals ¹	1,521	1,884	2,156	2,296	2,323

¹ Differences due to rounding off. ² Including draft supplementary budget. ³ Provisional figures.

Throughout the five-year period the administrative expenditures have risen steadily. In 1927-28 the increase was due mainly to the increased salaries and pensions of officials which became effective in the middle of the year. In 1928-29 the budget estimates indicate a further increase, chiefly on account of higher salaries and pensions. In addition, 277 millions of authorized expenditures have been carried forward, outside of the budget, from the preceding year, mainly under the items "Army and Navy" and "Commerce, industry and agriculture", and to the extent that they are made before the accounts are closed they will enlarge the expenditures foreseen by the budget.

(c) Other expenditures.

The other principal groups of the expenditures of the Reich during the five-year period are summarized below. Many of them, apart from the payments made in execution of the Experts' Plan, consist of expenditures which have developed considerably beyond what appears to have been contemplated at the time the Experts were in session. This is particularly true of the war pensions, the revalorized debt, the investments, loans, etc., and the large outlays for unemployment relief made in 1926-27 and 1927-28:

	1924-25 actual	1925-26 actual	1926-27 actual	1927-28 actual	1928-29 estimates
SERVICE OF DEBT					
Repayment of Treasury Bonds	74	162	87	—	—
Reduction of sundry gold loans	364	90	83	86	73
Revalorized debt, with interest	—	1	241	409	354
Other interest	12	9	10	16	48
	<u>450</u>	<u>262</u>	<u>421</u>	<u>512</u>	<u>475</u>
CHARGES ARISING OUT OF THE WAR					
Execution of Experts' Plan:					
Budget contribution ...	—	145	276	530	938
Transport tax	—	146	261	302	290
Reserve, Commissioner of Controlled Revenues	—	—	13	67	20
War pensions ²	833	1,153	1,155	1,300	1,410
Liquidation of war damages	180	184	169	83	89
Other internal charges ..	1,095	176	172	177	130
	<u>2,108</u>	<u>1,804</u>	<u>2,046</u>	<u>2,459</u>	<u>2,877</u>
SOCIAL EXPENDITURES					
Unemployment relief ...	36	163	426	324	125
Other social expenditures	223	344	385	442	543
	<u>259</u>	<u>507</u>	<u>811</u>	<u>766</u>	<u>668</u>
INVESTMENTS, LOANS, ETC. . .	112	391	483	267	185
Totals ³ . . .	2,929	2,964	3,761	4,004	4,205

¹ Including draft supplementary budget.

² Provisional.

³ Differences due to rounding off.

The increase in the war pensions in the last two years is a direct result of the general increase in salaries and pensions of officials, which became effective October 1, 1927.

In the current year, the reduction in unemployment relief expenditures is due largely to the enactment of the unemployment insurance law of 1927, which has been fully explained in previous Reports.

There are also large authorized expenditures carried forward outside the budget into the current year, which will, as in the case of the administrative expenditures, reflect themselves in the final accounts for 1928-29. Among these authorizations are 174 millions for unemployment relief, partly for projects undertaken in 1926-27 and now in course of completion; 170 millions for liquidation of war damages; 143 millions for revalorized debt service and 94 millions for investments, loans, etc. Thus the actual expenditures for 1928-29 are likely to be considerably larger than the estimates given in the foregoing table.

4. Revenues and Expenditures, First Half of 1928-29.

The official statement of the revenues and expenditures of the Reich during the first six months of the present financial year are summarized and briefly analyzed in the next two paragraphs.

(a) Revenues, first half of 1928-29.

The table on page 68 shows the tax and administrative revenues realized during the first half of the current year compared both with the similar figures of last year and with one-half of the budget estimates. The latter comparison, however, is not entirely accurate because certain revenues, especially those derived from the turnover, automobile and certain consumption taxes, are greater at some seasons than at others. Moreover, the instalment of the property tax due August 15th was, as usual, postponed for agriculturists until November 15th.

Administrative revenues were 314 millions, or 29 millions under one-half of the estimates, largely owing to reduced seigniorage receipts. They include the Post Office surplus of 70 millions and the Railway preference share dividend of 51 millions, sources from which no revenue will be received in the second half-year.

The tax revenues exceed those of the first half of last year by 382 millions; they also exceed one-half the estimates, which when the budget was adopted were regarded as maximum figures, by 66 millions. The following analysis of this increase, however, shows that the amount to be transferred to the States and communes, from only those revenues which they share proportionally, increased 130 millions over one-half of the estimates, whereas the amount remaining at the disposition of the Reich is 63 millions less than one-half of the estimates.

The striking increase in the yield of the income and corporation income taxes only serves to emphasize the practical importance of the view already expressed in this and previous Reports that these are the taxes which, taken together with the turnover tax, most

Distribution between Reich and States and communes of increase in tax revenues for first half of 1928-29 over one-half the estimates (In millions of reichsmarks)	Total increase or decrease as compared with estimates	Share of the Reich		Share of the States and communes
		Percentage	Amount	
Taxes shared proportionally with States and communes:				
Income tax	+ 149.3	25	+ 37.3	+ 112.0
Corporation income tax	+ 14.0	25	+ 3.5	+ 10.5
Turnover tax	— 41.7	70	— 29.2	— 12.5
Tax on real estate transactions ..	— 1.4	4	— 0.1	— 1.3
Automobile tax	+ 19.4	4	+ 0.8	+ 18.6
Race-betting tax	+ 2.4	4	+ 0.1	+ 2.3
	+ 142.0	—	+ 12.4	+ 129.6
Taxes not shared proportionally with States and communes	— 96.5		— 96.5	—
Customs and taxes on consumption	+ 20.9		+ 20.9	—
Totals	+ 66.4		— 63.2	+ 129.6

directly reflect improving economic conditions, and whose increased yield should be available to meet the needs of the Reich. Under the present provisional financial settlement, however, the bulk of the revenue from the income and corporation income taxes is transferred automatically to the States and communes and but a small part of the increase in their yield remains at the disposition of the Reich. On the other hand, the tax revenues which are not shared proportionally with the States and communes show no present tendency, as a whole, to increase. The principal element in these revenues is the yield of the customs dues and the taxes on consumption. While these revenues have increased very largely in the past three years, with the rise in the general level of consuming power, the budget estimates for this year, which are borne out by the receipts of the first six months, appear to indicate that they have now reached a fairly stable level. Under present conditions, therefore, the principal part of the increase in the aggregate tax revenues of the Reich is passing to the States and communes instead of remaining at the disposition of the Reich.

No official estimates, such as those which were published by the Finance Ministry a year ago, have yet been made regarding the probable results of the year as a whole. The communiqué of the Finance Minister published with the statement of tax receipts for September, 1928, indicated, however, that, as to revenues, there were "well founded reasons for the belief that the budget estimates would be attained". A further communiqué, issued with the statement of tax receipts for November, refers to the surplus of revenues over the estimates in the first eight months of the year, but adds the following caution: "In particular, it is impossible to conclude from the figures that there will be a surplus for the Reich, in view of the fact that the surplus on the first eight months is derived chiefly from taxes subject to transfer, from which the States will draw a considerable share".

Comparative Statement of Revenues of the Reich, first half of financial year (In millions of reichsmarks)	First six months of 1927-28 actual	First six months of 1928-29 actual	One-half of estimates for 1928-29 ³	Increase (+) or decrease (-) in first six months of 1928-29 as compared with one-half of estimates
<i>Tax Revenues</i>				
TAXES SHARED PROPORTIONALLY WITH THE STATES AND COMMUNES				
Income tax:				
salaries and wages (amount de- ducted at source).....	641	738	650	+ 88
interest and dividends (amount deducted at source).....	77	100	75	+ 25
general assessment (after above deductions)	611	761	725	+ 36
Corporation income tax	240	289	275	+ 14
Turnover tax	372	483	525	— 42
Tax on real estate transactions ..	19	19	20	— 1
Automobile tax	89	99	80	+ 19
Race-betting tax	22	22	20	+ 2
Totals¹	2,069	2,512	2,370	+ 142
TAXES NOT SHARED PROPORTIONALLY WITH THE STATES AND COMMUNES				
Property tax.....	200	190	260	— 70
Succession duties	33	35	50	— 15
Taxes on the movement of capital:				
company tax ⁴	33	35	40	— 5
tax on securities	11	7	15	— 8
tax on Bourse transactions	43	28	43	— 15
Insurance tax.....	26	29	25	+ 4
Lottery tax.....	22	24	20	+ 4
Tax on bills of exchange	22	26	25	+ 1
Transport tax	181	185	170	+ 15
Non-recurrent.....	17	5	13	— 8
Totals¹	589	563	660	— 97
ASSIGNED REVENUES				
Customs.....	628	581	600	— 19
Tobacco tax.....	375	414	390	+ 24
Beer tax ⁴	180	200	185	+ 15
Sugar tax	137	77	70	+ 7
Spirits monopoly.....	116	127	135	— 8
Totals....	1,436	1,399	1,380	+ 19
OTHER TAXES ON CONSUMPTION	22	23	21	+ 2
Totals from taxes¹	4,115	4,497	4,431	+ 66
Administrative and Other Revenues	208	314	343	— 29
Total current revenues¹	4,323	4,812²	4,774	+ 38
¹ Differences due to rounding off. ² Excluding transfer of 62 millions from working fund. ³ Including draft supplementary budget. ⁴ Payments from this tax are made to certain States; see page 60.				

(b) Expenditures, first half of 1928-29.

The following table shows the expenditures of the Reich for the first half of the current year compared with those for the same period last year. The figures are taken from the monthly statements issued by the Finance Ministry. The final column in the table, giving the estimated expenditures for the whole year, consolidates expenditures of 9,736 million reichsmarks authorized in the budget with net expenditures of 909 millions carried forward from the preceding year after deduction of 30 millions of cancelled items. Together the total authorized expenditures amount to 10,645 millions, or 810 millions more than the corresponding amount last year.

The expenditures actually made in the first half-year were 4,768 millions, or less than one-half the total expenditures authorized. As in the case of the revenues, the distribution of expenditures between the two halves of the year is not equal. Last year the expenditures in the second half of the year exceeded those in the first half by 532 millions. This year a number of expenditure items will be larger in the second half-year; reparation payments by 343 millions, owing to the increased monthly payments of the fifth Annuity year; revalorized debt payments by perhaps 175 millions, owing to the autumn drawings of bonds; and in several other items seasonal and other causes may be expected to operate in the direction of an increase.

Comparative statement of expenditures of the Reich, first half of financial year (In millions of reichsmarks)	First six months of 1927-28 actual	First six months of 1928-29 actual	Twelve months 1928-29 estimates ¹
<i>Ordinary Budget</i>			
Tax transfers to States and communes...	1,359	1,674	3,225
Reparation payments	413	432	1,228
Salaries, including army and navy.....	352	395	839
Pensions	755	923	1,782
Social insurance.....	135	178	477
Unemployment relief.....	122	85	132
Army: payments for material.....	131	138	358
Navy: payments for material	64	63	192
Communications	67	74	161
Public debt: interest and sinking fund	44	53	121
Revalorized debt	141	104	497
Police	95	110	200
Internal war charges.....	86	117	407
Miscellaneous	349	254	627
Totals ²	4,112	4,589	10,244
<i>Extraordinary Budget</i>			
Reparation payments	18	20	20
Productive unemployment relief.....	47	80	167
Communications	44	42	84
Internal war charges	15	—	12
Miscellaneous	156	38	119
Totals ²	280	180	401
Grand totals ²	4,392	4,768	10,645

¹ Including draft supplementary budget and authorizations brought forward from 1927-28.

² Differences due to rounding off.

5. *The Extraordinary Budget.*

The expenditures authorized through the extraordinary budget, notably those of the years 1926-27 and 1927-28, have been responsible for many of the budgetary difficulties of the Reich during the five-year period, and particularly for the heavy drain on its cash resources during the past two years. Previous Reports have examined at length the position of the extraordinary budget and have traced from their origin the practices which gave rise to the difficulties. But, as the Chancellor said to the Reichstag on July 3, 1928, the situation "continues to be the subject of grave misgivings", and it is necessary to re-examine the problem at this time.

The budget of the Reich is divided into an ordinary and an extraordinary budget, in accordance with the fundamental budget law of December 31, 1922, which defines the transactions belonging to the latter in the following terms:

"To the extraordinary budget belong income derived from loans (extraordinary income) and expenditure to be defrayed therefrom (extraordinary expenditure). Contributions to the amortization of debt, income derived from the alienation of properties of the Reich acquired with funds derived from loans, and other income which is extraordinary in respect of its amount or its origin are also to be classed as extraordinary income".

During 1924-25 and 1925-26 the extraordinary budget was financed by administrative revenues, by repayments of loans, and by funds transferred from the ordinary budget. Of expenditures aggregating 1,488 millions in these two years, 1,133 millions were covered from the resources indicated, and the balance was financed by the proceeds of the Rentenbank and other loans. Subsequently, when the budget for 1926-27 was under consideration, it was decided, in conjunction with the programmes for tax reduction and for combating unemployment, to revert to the pre-war practice of financing the extraordinary budget by borrowing. In 1926-27 and 1927-28, accordingly, extraordinary expenditures of 1,306 millions were authorized in the expectation that they would later be covered by borrowing. It soon became evident, however, that there were serious practical limitations on this policy, and that extraordinary expenditures in these dimensions could not be financed by new borrowings without putting too great a strain on the internal capital market. The only loan which was actually issued, the Reich loan of 1927, was not a success; and its total proceeds amounted to only 452 millions, leaving uncovered expenditures to a very large amount. As a result the extraordinary budget experienced serious difficulties, the burden of which has fallen on the cash position of the Reich. In 1926-27 there was an uncovered deficit of 290 millions, which in 1927-28 increased to 465 millions. Moreover, there remained expenditures authorized but not yet made to the amount of 259 millions. The dangers inherent in the extraordinary budget were thus forcibly realized, and steps were taken to remedy the situation, as described at some

length in the previous Report. The expenditures not made were subjected to "a careful, critical inspection" and in some cases abandoned; the 1928-29 extraordinary budget contained no new authorizations to borrow; and the budget law provided that, in future, extraordinary budget expenditures should be made only out of extraordinary budget revenues, unless "the discontinuance or interruption of the work would entail serious economic disadvantages."

The present position of the extraordinary budget is shown below. At the beginning of the current year the expenditures authorized aggregated 401 millions; of these 173 millions represent the fresh authorizations of the 1928-29 budget, and 229 millions represent the net amount of unspent authorizations of previous years brought forward, a deduction of 30 millions having been made in respect of cancelled items. In the first six months of 1928-29 the expenditures amounted to 180 millions, and the receipts to 66 millions; while the accumulated deficit in the extraordinary budget rose to 544 millions, as the following statement, in millions of reichsmarks, shows:

Expenditures, first six months of 1928-29.....	180	
Revenues, first six months of 1928-29.....	66	
consisting of		
Administrative receipts.....	4	
Balance of working fund transferred.....	62	
Excess of expenditures over revenues.....		114
Deficit of extraordinary budget 1927-28 brought forward		
April 1, 1928	465	
less:		
Surplus of ordinary budget of 1927-28 appropriated to the extraordinary budget of 1928-29 to diminish loan requirements...	35	430
Total deficit, September 30, 1928.....		544

In the second half of the current year the authorized expenditures which may be made amount to 221 millions. To cover these, 27 millions are anticipated from administrative revenues and 80 millions from the Railway Company in repayment of a loan which does not, however, mature until November 1, 1929, and which even then, according to its terms, may be funded at the option of the Railway Company into a 20-year loan. But even the realization of the whole of these revenues, unless at the same time the expenditures made are substantially less than those authorized, will involve a further increase in the deficit, cover for which is now being provided out of the ordinary cash resources of the Reich. In order to relieve its cash position without being obliged to resort to the issue of public loans, the Government of the Reich has recently opened negotiations with the social insurance institutions with a view to obtaining a loan from their reserve funds, which at December 31, 1927, were estimated at 2,600 millions. No definite information is available, but

apparently an agreement has been reached for a loan of over 80 millions, to be evidenced by Treasury bonds maturing in from three to four years.

The foregoing summary is sufficient to indicate the difficulties which have been created by the policy of making investments, loans, etc., through the extraordinary budget with only authorizations to borrow as cover. In the absence of actual cover, these expenditures have created a deficit in the extraordinary budget which is an increasingly heavy burden on the resources of the ordinary budget and has required the Reich to have recourse to the money market through the medium of Treasury bills, as well as occasionally to make short loans from the Railway Company and the Post Office. The extraordinary expenditures authorized for the current year have been kept measurably within the estimated revenues, though the possibility of realizing the most important of these revenues must be viewed with great reserve. But there are renewed indications that the pressure for further loans and subsidies from the Reich is still active, and there is a danger that it will make itself felt in connection with the budget for the coming year.

The importance of avoiding further extraordinary expenditures in the nature of loans, investments, grants, etc., will be clear from an examination of those already authorized in the five-year period 1924-25 to 1928-29, which are summarized in the table on page 73. They aggregate 1,217 millions, of which about 1,080 millions had been expended up to September 30, 1928. In addition, the Reich has other important assets which were not acquired through the extraordinary budget, principally the 500 million gold marks nominal amount of preference shares of the German Railway Company which were received pursuant to the provisions of the Plan. The Reich collects interest on some of these investments, loans, etc., and it receives regular dividends on all its holdings of Railway preference shares. But thus far the record of repayments of loans and advances is not impressive. For example, up to March 31, 1928, the figures show that only about 2 million reichsmarks had been repaid. The budget of 1928-29 estimates repayments of 81 millions, but of this 80 millions represents the loan to the Railway Company of which mention has already been made. For the year 1929-30, no estimates are available as yet, but it is known that 138 millions advanced to the States for mortgages on dwellings under the law of July 1, 1926, fall due to be repaid during the year. Many of the expenditures made, of course, represent permanent investments which are practically irrecoverable, as, for example, the amount expended on waterways; while others, owing to the contractual arrangements made, are repayable only in from 10 to 30 years.

The burden on the cash resources of the Reich created by the deficit in the extraordinary budget would seem to provide the incentive for a determined effort by the Government to realize as soon and as largely as possible upon these investments, loans, etc., which have been made, including, for example, the preference shares of the Railway Company, for which an actual market exists. But if, for whatever reason, no important recoveries can be made,

Investments, loans, etc., authorized, and repayments anticipated, in the extraordinary budgets of 1924-25 to 1928-29 (In millions of reichsmarks)	Expenditures made or authorized	Repayments made or anticipated
INVESTMENTS		
Purchase of preference shares of the German Railway Company	220	—
Purchase of holdings of canal and automobile transport companies	66	—
Purchase of mortgage bonds of 3 German shipping credit banks	6	—
LOANS AND ADVANCES		
For mortgages on dwellings—advanced to States	200	—
For promotion of agricultural settlement in thinly populated districts	150	—
For building dwelling houses and settlements...	81	3
For housing and settlements in occupied and frontier areas, etc.	20	—
To the German Railway Company:		
for the execution of agreed programme of works	80	80
for the construction of new railway lines already begun	50	—
For support of the Upper Silesian iron industry	18	—
PRODUCTIVE EXPENDITURES		
Construction of waterways	261	—
Deutsche Werke	39	—
Miscellaneous	26	—
Totals	1,217	83

this in itself should furnish the strongest possible argument against embarking on any new programme which would further dissipate the budget resources of the Reich.

6. Budgetary Presentation and the Cash Position.

Noteworthy improvements have been effected in recent years in the structure of the budget and in the statements of the Finance Ministry. In 1926-27 the expenditures of the various Ministries were classified on a more uniform basis, and in 1928-29 the separate war charges budget was abandoned, thereby obviating the many inter-budgetary transfers which it had involved and which had obscured the situation. In 1928-29, also, the amplification of the usual survey accompanying the budget assisted greatly in clarifying the budgetary position. The monthly financial statements issued by the Ministry of Finance up to the end of 1926-27 contained very little information beyond the figures of the total receipts and payments. Since then they have been progressively expanded and now give full information with regard to the monthly

receipts and payments. Notwithstanding these important improvements in the monthly statements and in the presentation of the budget, information with regard to the cash resources of the Reich and their disposal is still very meagre. This situation has already been noted in previous Reports but in view of the various indications that the cash position of the Reich is becoming more difficult it seems appropriate to present it more fully.

The cash resources of the Reich consist of the balance of funds shown in the annual budget accounts and the monthly statements of receipts and expenditures, and of certain other funds not included in the budget. These latter are (a) the special working fund, originally amounting to 252 million reichsmarks, which was created out of the undisclosed receipts from seigniorage on the coinage in 1924-25, and (b) the amounts available from the creation of floating debt through sales of Treasury bills and the use of sundry short-term credits. The following table is composed of figures derived from various official sources, although no such statement has been published by the German Government itself, and shows the cash resources both at the opening and at the end of the first six months of the present year:

Cash resources of the Reich (In millions of reichsmarks)	April 1, 1928	September 30, 1928
Balance shown in the budgetary accounts and monthly statements....	217	322
Balance of special working fund	62	—
Floating debt:		
Treasury bills in circulation	40	296
Post Office loan	60	23
Short-term credit	75	—
	454	641
Less advance to Preussenkasse.....	100	100
Net cash resources....	354	541

During the six months, current budgetary receipts exceeded expenditures by 43 millions, and the balance of 62 millions left in the working fund was transferred to the extraordinary budget in accordance with the budget law; taken together these brought the budgetary balance up to 322 millions. The floating debt increased by a net amount of 144 millions, principally through further issues of Treasury bills issued under authority of the 1928-29 budget law, which empowered the Minister of Finance "to raise by loan a sum not exceeding 400 million reichsmarks for the purpose of provisionally increasing the ordinary working funds". In October the Treasury bills in circulation further increased to 341 millions and are therefore now close to the limit fixed by law. The Post Office loan is the balance of a credit received from the postal check funds in 1926. The advance of 100 millions to the Preussenkasse appears to have been made over two and one-half years ago, as it was included in the statement of the cash position communicated to the Budget Committee of the Reichstag on

May 7, 1926, and mentioned in the *Reichsanzeiger* of May 14, 1926. Moreover, though it really represents a loan to the *Preussenkasse*, it seems to have been made without the usual legislative sanction in the form of a budget appropriation. As a cash resource it is very much open to question, in view of the practical difficulties in the way of its repayment and the reported statement of the president of the *Preussenkasse* to the Budget Committee of the Prussian Diet on November 30, 1928, that one-half of the amount is to be converted into a participation in the capital of the *Preussenkasse*.

The annual accounts and the monthly statements of the Finance Ministry do not show the disposition of the cash resources of the Reich, nor do they indicate whether or not these resources are actually liquid and available. Funds advanced to the *Preussenkasse* for two or more years have clearly not been at the disposition of the Reich and the same is true of funds invested in bonds of the internal loan of the Reich, of which, according to recent press statements, the Reich holds a considerable volume. The last official statement of the cash position was published in the press May 8, 1926. The only official reference to the cash position published since then is contained in the following paragraph of the introduction to the 1928-29 budget:

"The presumption that out of the cash funds credits have been or are about to be accorded to economic groups or even to individual undertakings, and that these credits are 'frozen', is in no sense true. In so far as funds were or are available according to the accounts, they are for the most part deposited with the Reichsbank and to a smaller extent with the Prussian State Bank and the Reichs-Kredit-Gesellschaft. An amount of 100 millions was transferred to the Prussian Central Co-operative Office (*Preussenkasse*) for the purpose of granting credits to agriculture; this amount will make its way back to the Reich Treasury after the 1928 harvest."

The opening sentence of this statement indicates clearly the kind of surmises which may be provoked by the absence of regular official statements of the cash position. The mere fact that such surmises could arise and should have to be denied in an official statement furnishes conclusive evidence of the need for regular statements, issued at least monthly, showing the total available cash resources of the Reich and where and in what amounts they have been deposited or otherwise disposed of. From the public point of view, statements of this fund would be of great value to all who study or are affected by the movement of cash into and out of the Treasury of the Reich. From the Government point of view, they would be in the interest of sound and open administration of the public funds. Moreover, the publication of such statements by the Reich would unquestionably exert an influence and even some pressure on the States and communes to open their cash transactions and positions equally to public inspection, and in that way would contribute very much to the general improvement of public financial administration in Germany.

Mention should also be made of the irregularities exposed in the early months of 1928 in the handling of certain special funds.

These developments emphasize the need for better control over the administration of the public funds and presumably for their greater centralization in the Treasury of the Reich. The maintenance of special disbursing accounts in the various Ministries not only puts an entirely unnecessary drain on the cash resources of the Reich but, in addition, as experience has shown, may furnish the opportunity for extra-budgetary and even irregular payments.

7. The Financial Year 1929-30.

In the annual Report of last year it was possible for the first time to give an analysis of the draft budget for the coming financial year, since it had been presented to the Reichsrat on November 24, 1927. Up to the present time, however, the draft budget for 1929-30 is not available for analysis, and it has not yet been presented to the Reichsrat. The Finance Minister recently gave some indications of the problems to be met in preparing the 1929-30 budget. On the expenditure side, he pointed out, there is an increase of about 312 millions in reparation payments, bringing the budgetary contribution for the first time to the standard amount of 1,250 million gold marks, while on the side of receipts about 290 millions of the resources of the 1928-29 budget, representing surplus and seigniorage profits, will not again be available. The Minister accordingly estimated that to balance the 1929-30 budget about 600 millions would have to be found, and stated that while part of this could be covered by economies or even postponements of expenditures, certain increases in taxation were also under consideration.

8. Changes in Rates of Taxation.

Important changes in rates of taxation have been made during the five-year period. Most of these changes have reduced taxes, beginning with the first reduction of the turnover tax, effective October 1, 1924, and ending with the last reduction of the income tax, effective October 1, 1928. On the other hand, certain increases in tax rates have occurred.

The following is a summary of the reductions: the income tax on salaries and wages has been reduced four times, (a) by raising the exemption limit progressively from 720 to 1,200 reichsmarks and increasing family allowances proportionately, and (b) by lowering the rates progressively, with equivalent modifications in the tax collected under the general assessment, but with the proviso that in no case should the reduction in the amount paid exceed 36 reichsmarks per annum. The turnover tax has been reduced five times, from $2\frac{1}{2}$ per cent to $\frac{3}{4}$ of 1 per cent, and the luxury tax, originally 15 per cent, has been abolished. The tax on property up to 30,000 reichsmarks has been reduced depending on its amount, by between one-quarter and two-thirds. The sugar tax has been reduced by 50 per cent. The 20 per cent tax on still wine was reduced to 15 per cent and later abolished. The tax on bills of exchange and the tax on the amalgamation of companies have been reduced by 50 per cent, the taxes on stock exchange transactions

have been reduced by varying amounts, and the tax on foreign exchange operations has been abolished.

The increases in tax rates have been as follows: taxes on tobacco and the lower priced cigarettes have been raised by varying amounts, the tax on spirits by 18 per cent and the tax on beer by $33\frac{1}{3}$ per cent. A great many changes have been made during the five years in individual items of the customs dues, most of them increases. The most important was the reinstatement, in September and October, 1925, of the import duties on cereals, which, however, was primarily a protective rather than a revenue measure. On the other hand, various commercial treaties entered into with other nations have resulted in their receiving most-favored-nation treatment, involving lower duties for them in respect of many items. The net effect of all these changes in the customs dues is difficult to estimate.

9. Relation of Reparation Payments to the Budget of the Reich.

The Annuity years under the Experts' Plan, as already explained, do not coincide with the financial years of the Reich. The following table indicates the budgetary charges for reparations according to both Annuity and financial years:

Contributions from the budget of the Reich (In millions of gold marks)	Annuity years beginning September 1st		Financial years beginning April 1st	
	Budget con- tribution proper ¹	Transport tax	Budget con- tribution proper ¹	Transport tax
1924-25	none	none	none	none
1925-26	250	250	146	146
1926-27	410 ²	290	276	262
1927-28	500	290	530	302
1928-29	1,250	290	938	290
1929-30	1,250	290	1,250	290

¹ Subject to increase from 1929-30 onward, depending on the index of prosperity.
² Of this amount, 300 millions represents a definitive settlement of the maximum amount of 500 millions which might otherwise have been added in two payments to the Annuities of 1926-27 and 1927-28.

In addition, the budgets of the Reich for the three years 1926-27 to 1928-29, have provided funds for the creation of a reserve of 100 million gold marks for the Commissioner of Controlled Revenues.

The reparation charge, of course, has been one of the important elements in the general increase of expenditures, and it is of interest to analyze its relation to the other expenditures of the Reich, on the one hand, and to the tax resources, on the other. In 1924-25, it will be remembered, the budget made no contribution towards reparations. The table below, relating to the four succeeding financial years, indicates the relation of the budgetary contri-

butions, including the transport tax and the reserve of the Commissioner of Controlled Revenues, to the total budget receipts and expenditures, and shows the increase from year to year in the budgetary contributions, as compared with the increases in tax revenues, the tax transfers to the States and communes and other expenditures:

Relation of reparation payments to the budget of the Reich (In millions of reichsmarks)	Tax revenues		Reparation payments ¹		Tax transfers to the States and communes		Other expenditures	
	Amount	Incr.	Amount	Incr.	Amount	Incr.	Amount	Incr.
1925-26 (actual) .	6,856	—	291	—	2,596	—	4,557	—
1926-27 (actual) .	7,175	319	550	259	2,626	30	5,367	810
1927-28 (actual) .	8,490	1,315	899	349	3,016	390	5,401	34
1928-29 (estimates) ⁴	8,862	372	1,247	348	3,208 ²	192 ²	5,281 ³	-120
	—	2,006	—	956	—	612 ²	—	724 ³

¹ Including transport tax and reserve for Commissioner of Controlled Revenues.
² The results of the first six months of 1928-29 indicate that this amount will be appreciably increased.
³ Owing to the large volume of authorized expenditures carried forward into 1928-29 from the previous year, the final accounts for 1928-29 will considerably increase this figure.
⁴ Including draft supplementary budget.

It will be observed that while the reparation charge on the budget increased by 956 million reichsmarks in the last three years, tax revenues in the same period increased 2,006 millions, and that in each of the three years the increase in tax revenues was more than sufficient to provide for the increased reparation charge. Further it will be observed that while reparation payments increased in these three years by 956 millions, expenditures other than reparation payments increased by 1,336 millions, subject to further increase when the accounts for 1928-29 are finally closed.

b. The Budget of the Reichspost.

The accounts of the Reichspost for the financial year 1927-28, published in September, 1928, show favorable results. As compared with 1926-27, operating receipts increased 340 million reichsmarks or 20 per cent, while operating expenditures rose 182 millions or 13 per cent. The gross profit of 436 millions is 57 per cent larger than last year and the largest since 1924-25. The increase in receipts was due mainly to the new postal tariffs introduced August 1, 1927, but also to growth in the traffic in spite of the increased rates. The larger expenditures were due principally to the higher salaries, wages and pensions which became effective October 1, 1927, but also to increased outlay on working improvements.

The accounts for the four-year period are shown in summarized form in the following table:

Receipts and expenditures of the Reichspost (In millions of reichsmarks)	1924-25 actual	1925-26 actual	1926-27 actual	1927-28 actual
RESULTS OF OPERATIONS				
Receipts	1,664	1,725	1,715	2,055
Expenditures	1,129	1,392	1,437	1,619
Gross profit ¹ ...	535	332	278	436
DEDUCTIONS FROM GROSS PROFIT				
Depreciation	108	147	160	177
Set aside for reserve funds	173	22	—	—
Interest and discount	—	—	Cr. 8	5
Total deductions....	281	169	152	182
Net surplus ¹ ...	254	163	126	253
DISPOSITION OF SURPLUS				
Transferred to Reich	—	12	70	70
Transferred to capital account ...	187	218	56	183
Carried forward to next year	67	—	—	—
Totals ¹	254	230 ²	126	253
¹ Differences due to rounding off.				
² Including 67 millions brought forward from preceding year.				

The capital of the Reichspost in 1927-28 increased by 183 millions; on March 31, 1928, it was 2,219 millions as compared with 1,574 millions on March 31, 1924. The whole of the capital increase in 1927-28 was provided out of current receipts, but the report states that 86 millions will later be charged against loans. The loans authorized in 1926-27 and 1927-28, aggregating 174 millions, have not been issued. For 1928-29 an additional 50 millions of loans were authorized, making the total authorizations at present 224 millions.

For the current year, only the provisional results of the first six months have been published. Receipts increased 13 per cent while expenditures increased only 7 per cent; the excess of receipts over expenditures being 38 millions, as compared with an excess of expenditures of 17 millions in the same period last year.

The postal check service developed materially during the calendar year 1927. Deposits increased by 54 millions or 9 per cent, and the turnover by 21,300 millions or 19 per cent. During the present calendar year the growth is continuing but at a lower rate; in the first nine months the increase in turnover was 9 per cent. On March 31, 1928, the funds of the postal check service aggregated 547 millions, of which the Reichspost employed 67 millions as working funds, or 36 millions more than the amount so employed at the beginning of the year.

c. The Budgets of the States and Communes.

The importance of the position occupied by the States and communes in the public finances of Germany is indicated by the fact that, taken together, their revenues and expenditures are substantially larger than those of the Reich. There are no figures available to show the present budgetary position of the States and communes together, or of either group separately. But the Reich issued a decree on June 23, 1928, the terms of which are more fully described in a later paragraph, requiring them to submit current information regarding their budgets, accounts, revenues, expenditures and indebtedness. Only when this information is currently submitted and published, will it be possible to begin to understand the financial position, budget requirements and resources of the States and communes.

Six bills standardizing the taxes of the States were, with one exception, adopted by the Reichsrat on November 23, 1928. These bills, which were prepared and introduced over a year ago, have been regarded by the Government as a step in the direction of administrative reform and as a pre-requisite to a definitive settlement of the financial relations of the Reich with the States and communes. The principal purpose of the bills is to establish the uniform assessment and collection of the most important taxes of the States, those levied on real estate, occupations and rents, and to establish a uniform rate of taxation on rents. The bills affect the communes also, as they share largely in these taxes and as many of them, particularly in Prussia, obtain a portion of their revenues through supplements to the State taxes on real estate and occupations. The bill concerning the tax on rents, which included a provision for a uniform rate of taxation, is regarded as in effect a change in the Constitution and therefore requires a two-thirds vote in both branches of Parliament. The Reichsrat passed the bill by less than a two-thirds vote and consequently it is not considered as adopted. The Government has generally accepted the modifications proposed by the Reichsrat in the five bills adopted by that body and has presented them together with the bill concerning the tax on rents for consideration by the Reichstag. The bills, if enacted, would effect administrative economies for both the States and the taxpayers and would also facilitate a comparison of the tax burdens of the individual States. The modified regulations regarding the assessment and collection of the three taxes, if enacted, will not become operative before April 1, 1930, but preparatory measures may be undertaken before this date.

With regard to the budgets of the States, the 1928-29 budgets of Prussia, Bavaria, Saxony, Wurtemberg and Baden, the five largest States, which include about 90 per cent of the population of Germany, have been examined by the Economic Service of the Transfer Committee and are presented herewith in summarized form. These budgets show generally increased revenues as compared with the preceding year, due both to larger transfers from the Reich, and to larger revenues from State taxes. They also show increased expenditures, due principally to the higher salaries and

pensions of officials, and to increased transfers to the provinces and communes.

In view of the great number of the communes no attempt has been made to examine the budgets of even the largest of the cities. Official statistics showing the revenues and expenditures of all the communes for the year 1925-26 have been published, but the quarterly publications of the tax revenues of the States and communes for 1926-27 and 1927-28 do not separate the revenues of the States from those of the communes. Accordingly, no analysis can be made of the development of the communal budgets until the new statistics are available.

1. The Budgets of the Five Largest States.

The conditions prevailing in the budgets of Prussia, Bavaria, Saxony, Wurttemberg and Baden, the five largest States, may be regarded as representative of the development of State finances generally. In the Report of December 10, 1927, the 1927-28 budgets of these five States were presented in summarized form, but with some reserve, because the radical differences in their financial and administrative procedure made any uniform classification of their budgetary statistics difficult. The final accounts of these States for 1927-28 have not yet been published, but in the aggregate their budgets indicated a current deficit of 200 millions. Preliminary information regarding the results of the year in Prussia and Bavaria, however, have recently been given by their respective Finance Ministers.

In the case of Prussia, the results for 1927-28, published June 27, 1928, appear to indicate that, after making various balancing adjustments, the ordinary budget balanced within 0.1 million reichsmarks. Expenditures were higher than the budget estimates largely as a result of the increased salaries and pensions of officials, effective October 1, 1927, which the Minister estimated as involving an increase of about 100 millions for the half-year. The larger expenditures were offset by increased revenues from State taxes and larger transfers from the Reich. The extraordinary expenditures, which in Prussia are not carried in the budget, aggregated 210 millions. Of these, 6 millions were met out of administrative receipts and 117 millions from the proceeds of loans, and the balance is being covered temporarily out of cash resources pending the issue of loans authorized for the purpose.

In the case of Bavaria, the Minister stated to the Diet on November 13, 1928, that the ordinary budget accounts for 1927-28 showed a deficit of 11 millions. As in the case of Prussia, both salaries and pensions increased, as did also the State revenues and transfers from the Reich. Apparently, however, the deficit is due not merely to the constantly increasing expenditures, but also to increasing arrears and remissions of taxation. Extraordinary budget expenditures of 60 millions were made in the first ten months of 1927-28, according to an earlier statement of the Minister

Budget estimates, five Federal States, 1928-29 (In millions of reichsmarks)	Prus- sia	Bava- ria	Sax- ony	Wur- tem- berg	Baden	Total 1928-29	Total 1927-28
<i>Revenues</i>							
From Reich:							
Tax transfers:							
for State purposes ...	866	246	152	90	74	1,428	1,289
for provinces and com- munes	989	110	—	—	39	1,138	1,013
Grants for police, unem- ployment, etc.	161	24	14	7	22	228	216
From communes—grants...	40	5	40	28	21	134	107
Tax revenues:							
for State purposes	746	158	94	46	57	1,101	1,021
for provinces and com- munes	607	28	—	—	—	635	575
Administrative revenues, etc. from State properties ...	84	46	13	14	8	165	138
Reimbursement of loans..	24	19	7	—	10	60	45
Miscellaneous	326	56	63	29	46	520	478
Total revenues....	3,843	692	383	214	277	5,409	4,882
<i>Expenditures</i>							
Transfers to provinces and communes:							
Tax transfers	1,596	138	—	—	39	1,773	1,588
Subsidies.....	33	11	1	4	2	51	38
General administrative ex- penses:							
Education	702	175	132	71	80	1,160	998
Police	344	51	45	22	21	483	476
Justice.....	331	50	46	23	21	471	413
Pensions	221	54	59	27	26	387	344
Social expenditure.....	36	18	42	12	28	136	161
Commerce, industry, agri- culture	136	26	15	18	14	209	187
Public works, etc.	51	29	37	17	25	159	160
Financial administration..	121	6	3	3	1	134	121
Miscellaneous	122	118	36	17	24	317	251
Investments, loans, etc. ...	173	59	40	21	20	313	328
Reduction of public debt..	17	13	1	20	3	54	17
Total expenditures....	3,883	748	457	255	304	5,647	5,082
Excess of expenditures over revenues	40	56	74	41	27	238	200
<i>Balancing Items</i>							
Transfer from surplus of previous years	40	—	—	8	—	48	9
Net deficit ...	—	56	74	33	27	190	191

to the Budget Committee of the Diet, and appreciable further amounts were expended in the remaining two months. The extraordinary expenditures authorized for 1927-28 were 86 millions, all of which were to be covered by borrowing.

For the current year, 1928-29, the budgets of the five States summarized in the table on page 82 show an excess of current expenditures over current revenues in the case of each of the States, amounting in the aggregate to 238 millions. To this current deficit must be added certain extraordinary expenditures, which are to be covered by borrowing, part of which in some of the States and all of which in Prussia are extra-budgetary. Accordingly, the prospective current deficit of these States is larger than the budget figures indicate. On the other hand, it stands to be considerably reduced by the receipt of larger tax transfers from the Reich than were originally anticipated, in view of the large revenues now being realized from the Reich taxes in which the States share proportionally.

Without attempting any detailed analysis of these budgets, the points which stand out most clearly are that last year the budgets of the five States as voted showed a current deficit of 200 millions, to which must be added extraordinary expenditures, outside the budget, which amounted to 210 millions in the case of Prussia alone; and that this year, in spite of an aggregate increase of 527 millions in their revenues, their budgets as voted again show a current deficit amounting to 238 millions, to which must be added an unstated volume of extraordinary expenditures. Thus, while the expressed policy of the Reich is to keep its budget in equilibrium in spite of the increasing burdens of the various national readjustments it has undertaken, the States, without the burden of these readjustments except that of increased salaries and pensions for their own officials, and with steadily increasing revenues are, nevertheless, year after year voting budgets which show current deficits. It is clear that a "vigorous . . . effort" is needed to bring the budgets of the States into sound equilibrium, and it is to be hoped that the Government of the Reich will lend its assistance in this direction, in line with the declarations that were made in its own memorandum of November 5, 1927, where it stated that it was "devoting its greatest attention to the development of the financial affairs of the States and communes" and endeavoring "to ensure that the principles which it considers right for itself are likewise observed by them". The current financial statistics which the States are now required to furnish and which have already begun to appear will soon permit a much clearer understanding of their budgetary position.

2. Financial Statistics of the States and Communes.

Since the publication of the last Report, two further instalments of statistics assembled under the law of August 10, 1925, and the decree of July 25, 1927, have been published, one covering the tax receipts of the individual States and their communes for the financial years 1913-14 and 1925-26, and the other the tax collections of the Reich, States and communes for the fourth quarter of 1927-28.

The table below summarizes the tax receipts of the States and their communes in 1913-14 and 1925-26 and indicates the changes produced by the post-war legislation in the fiscal structure of these public authorities. The figures of the two years are not strictly comparable, as no allowance has been made for the decreased purchasing power of money. In the table the tax transfers from the Reich to the States and from the States to the communes are distributed to the authority which finally utilized them.

Principal tax receipts available to the States and their communes ¹ (In millions of reichsmarks)	Income and cor- poration income tax		Tax on real estate and occupa- tions		Tax on rents		Turnover tax		Total taxes	
	1913— 1914	1925— 1926	1913— 1914	1925— 1926	1913— 1914	1925— 1926	1913— 1914	1925— 1926	1913— 1914	1925— 1926
States and their com- munes:										
States	531	1,010	43	411	—	653	—	177	826	2,396
Communes	782	919	540	980	—	550	—	211	1,511	3,171
Hanseatic cities ²	79	108	34	52	—	54	—	11	132	247
Totals ³	1,391	2,037	616	1,443	—	1,257	—	400	2,469	5,814

¹ The 1913-14 figures are adjusted to the territory of the Reich in 1925-26, excluding the Saar.
² The Hanseatic cities are both States and communes.
³ Differences due to rounding off.

The total tax resources of the States, the communes and the Hanseatic cities, including the amounts which remained at their disposal from the tax transfers, were thus considerably more than twice as high in 1925-26 as in 1913-14. In the case of the States the volume nearly trebled; in the case of the communes it slightly more than doubled; and in the case of the Hanseatic cities it increased 86 per cent. During this period the whole fiscal structure of the States and communes radically changed, mainly as a result (a) of the introduction of the system of tax transfers from the Reich to the States and from the States to the communes, and (b) of the introduction of the new taxes on rents and turnover. The tax resources of the States and communes and Hanseatic cities, including the amounts transferred to them by the Reich, amounted to 42.7 marks per capita in 1913-14 and to 93.2 reichsmarks in 1925-26, varying appreciably in the different States. In comparing the two figures, however, regard should be had to the decline in the purchasing power of money.

With regard to the current tax collections of the Reich, States and communes, the figures now published make it possible to compare the returns for two entire years 1926-27 and 1927-28. The published figures for 1927-28, however, do not include those of the communes with less than 5,000 inhabitants, and in the table below these have been estimated on the basis of the 1926-27 figures for purposes of comparison. The figures for 1913-14 and 1925-26,

calculated on the basis of previous publications, are also included in the table. It should be noted that these figures represent the taxes collected by the respective authorities, before the making of transfers, and not the tax resources available to them after transfers have been made.

Tax collections of Reich, States and communes (In millions of reichsmarks)	1913-14 (present frontiers)	1925-26	1926-27	1927-28
Collected by Reich ¹	1,582	6,825	7,144	8,449
Collected by States and communes ²	2,469	3,249	3,598	4,099 ³
Totals....	4,051	10,074 ⁴	10,742	12,548
¹ Excluding Reich tax on real estate transactions. ² Including Reich tax on real estate transactions. ³ Estimated. ⁴ Previously published as 10,121.				

The total tax collections of Germany in 1927-28 thus showed an increase of 2,474 millions as compared with 1925-26, or nearly 25 per cent. Reich taxes contributed 1,624 millions of this increase, and State and communal taxes 850 millions. The increase in the latter group came almost entirely from three taxes, 376 millions from the tax on rents, 242 millions from the tax on real estate and 225 millions from the tax on occupations. The final distribution of these tax collections between the Reich, on the one hand, and the States and communes, on the other, after transfers have been made, is given in the table below.

Tax revenues available for utilization by Reich, States and communes (In millions of reichsmarks)	1913-14 (present frontiers)	1925-26	1926-27	1927-28 estimated
Available to Reich	1,629	4,260	4,546	5,475
Available to States and communes	2,422	5,814	6,196	7,073
Totals....	4,051	10,074	10,742	12,548

In 1927-28 the net tax resources left to the Reich after deducting transfers to the States were 5,475 millions, an increase of 3,846 millions, or 236 per cent, over 1913-14; those of the States and communes, including the transfers, were 7,073 millions, an increase of 4,651 millions, or 192 per cent, over 1913-14. Of the total tax receipts of Germany in 1927-28, the States and communes disposed of 56 per cent as compared with 58 per cent in 1925-26, and 60 per cent in 1913-14. Thus, although the Reich since 1913-14 has assumed many additional burdens of a national nature, including the reparation charge, its share of the total tax revenues of Germany has not substantially increased.

Mention has been made in an earlier paragraph of the decree of the Reich of June 23, 1928, which requires the States and the

larger communes to furnish full current information on their budget and debt positions. The information required is as follows: All the States and those communes with a population exceeding 10,000 are to transmit to the Reich for the years 1927-28 to 1930-31 copies of their budgets as soon as voted, and of their appropriation accounts as soon as closed. Beginning next year also, the States and communes with a population exceeding 50,000 will be required to furnish an annual summarized statement of their budget estimates, classified according to a uniform plan. In addition to these annual requirements, the States and the larger communes with a population exceeding 25,000 are to issue in their official publications statements of their revenues and expenditures commencing April, 1928; the States are to publish this information monthly and the communes quarterly, during the month following the period in question. The States are also required to furnish periodical statements of their own debts and those of their communes, beginning with the indebtedness as it existed March 31, 1928.

The first statistics published as a result of this decree give the monthly tax revenues of the individual States in the first half of the current year. The total revenues were 2,706 millions, of which State taxes furnished 1,019 millions, and transfers from the Reich 1,687 millions. The States retained 1,604 millions and transferred the balance of 1,102 millions to the communes. These figures show the importance of tax transfers in the finances of both the States and the communes. During the six months 62 per cent of the resources of the States were derived from transfers effected by the Reich; on the other hand, 41 per cent of their resources from taxes and transfers were transferred to the communes. As the previous statistics of quarterly tax revenues do not separate those of the States from those of the communes, comparison cannot be made between the present results and those of the corresponding period of the two previous years. In the case of the five principal States, the budgets of which have been summarized in the preceding paragraph, the actual receipts from their principal taxes, on rents, real estate and occupations, for the first half-year, when compared with one-half of the budget estimates, indicate that in almost every case the estimates of the share retained by the States have been either attained or exceeded. But, as the due dates of these taxes vary from one State to another, the comparison is subject to reservation.

V. The German Public Debt.

At the beginning of the period of reconstruction the public debt of Germany, expressed in marks, had been practically eliminated as a result of the inflation of the currency. In addition to Germany's reparation obligations, only those debts or guaranties which were expressed in gold or foreign currencies remained. On April 1, 1924, the public debt of Germany, outside of reparation obligations, was about 2,500 million reichsmarks, practically all of which consisted of obligations of the Reich. The obligations of the States and communes at this date, concerning which, however, accurate information is lacking, are believed to have been very small. During the succeeding four and one-half years the public debt of Germany increased by about 9,500 millions, over one-half of which is due to the revalorization of the paper mark debts of the Reich. On September 30, 1928, the total debt is estimated at about 12,000 millions, exclusive of reparation obligations and of about 1,100 millions of debt certificates of the Reich to be issued under the war damages liquidation law of March 30, 1928. Of this increase, about 5,500 millions are debts of the Reich and about 4,000 millions are debts of the States and communes. The indebtedness of the Reich is taken from official statements, but the indebtedness of the States and communes, in the absence of official information, has been estimated by the Economic Service of the Transfer Committee, based on loans issued in Germany and in foreign countries during the period.

a. The Public Debt of the Reich.

On April 1, 1924, at the beginning of the financial year 1924-25, the debts of the Reich that had been contracted before, during and after the war, and expressed in marks, had been practically eliminated by the inflation of the currency. The existing debt consisted of (a) loans contracted in 1923 with the Reichsbank and the Rentenbank, expressed in foreign currencies and rentenmarks respectively, for the purpose of supporting the currency; (b) Treasury certificates issued in 1923 and 1924 in dollars, in gold and in rentenmarks and (c) various obligations expressed in foreign currencies, including loans contracted in the United States during the early part of the war, and various guaranties undertaken toward Turkey during the war and in connection with food purchases made in other countries during and after the war. These obligations aggregated 2,406 million reichsmarks.

In the financial year 1924-25 the debt increased by the net amount of 390 millions. The German External Loan, issued in 1924 under the Experts' Plan, amounted to 960 millions nominal value. The debt to the Rentenbank increased 88 million rentenmarks. On the other hand, 636 millions of Treasury certificates and other obligations were retired, including the guaranties undertaken towards Turkey, which amounted nominally to about 350 million reichsmarks, but were discharged in 1924-25 by a cash payment of about 2½ millions.

During the two subsequent financial years, 1925-26 and 1926-27, the debt of the Reich increased by 5,277 millions, due principally to the revalorization of the old paper mark debt by the law of July 16, 1925, and the inclusion in the debt statement of the "loan liquidation certificates" issued thereunder. These certificates, which are later more fully described, were provisionally entered in the debt statement of March 31, 1927, at 5,443 millions, after deducting 57 millions which had been retired December 31, 1926. In these two years the debt further increased by the issue of the internal loan of February, 1927, of which 364 millions nominal amount were outstanding at the end of 1926-27, and by a loan of 110 millions from the Post Office. On the other hand, in the course of these two years, bank loans, Treasury certificates, and guaranties decreased altogether by 626 millions.

In the succeeding financial year, 1927-28, there was, for the first time, a net decrease in the debt of the Reich, in the amount of about 257 millions. The nominal amount of the internal loan of February, 1927, increased by 136 millions during this year, and 40 millions of reichsmark Treasury bills were issued, but other items showed a sufficient decrease to result in a net decrease of the public debt as a whole.

In the first half of the present financial year, 1928-29, the debt increased by 153 millions. Bank debts decreased 66 millions and the Post Office debt decreased 37 millions, but Treasury bills increased by 256 millions. Further issues of Treasury bills have since been made, and at the end of October they stood at 341 millions and were thus not far from the limit of 400 millions stipulated in the 1928-29 budget law.

To summarize, during the $4\frac{1}{2}$ -year period from April 1, 1924, to September 30, 1928, the public debt of the Reich has increased from 2,406 millions on April 1, 1924, to 7,969 millions on September 30, 1928. The principal items contributing to this increase have been the loan liquidation debt of about 5,500 millions resulting from revalorization, the External Loan of 960 millions issued in connection with the Experts' Plan, the internal loan of 500 millions in 1927, and the subsequent issues of Treasury bills. On the other side, outstanding obligations have been reduced by 1,234 millions during the same period, so that the net increase has been about 5,560 millions.

The creation of the loan liquidation debt, which is the most important item of the public debt of the Reich, has been fully described in previous Reports. Briefly stated, the revalorization law provided that "old" holders, that is, persons who could prove that they had acquired mark obligations of the Reich prior to July 1, 1920, should receive preferential treatment. They were given bonds of the new loan liquidation debt with drawing rights redeemable at five times their nominal value or at $12\frac{1}{2}$ per cent of the calculated gold value of the nominal paper mark value of their holding. Other claimants, referred to as "new" holders, were to receive only the nominal value of their loan liquidation bonds, but at a date to be subsequently determined, and they could demand no payments whatever until the reparation liabilities of Germany had been met. In 1926, 1927 and 1928, drawings of the loan liqui-

dation bonds of "old" holders have been made and the debt reduced correspondingly. By the end of 1927 the amount drawn was 252 millions, and in 1928 the amount to be drawn is 208 millions, both exclusive of interest. The special sinking fund established in connection with the loan liquidation debt amounted to 135 millions on December 31, 1927, and on the basis of a memorandum which the Finance Minister presented to the Reichstag on November 14, 1928, the payments into the fund, with interest at 6 per cent, should aggregate about 210 millions at the end of the year. The Finance Ministry publishes no statement regarding the manner in which this fund is invested, though it represents one of the most important special funds under its administration.

The occasion for the memorandum of November 14, 1928, above mentioned, was the disclosure of alleged frauds in connection with the administration of the revalorization law of July 16, 1925. It will be recalled that the amount of the paper mark debt in the hands of "old" holders, when the revalorization law was under discussion, was estimated at about 20,000 millions of marks, whereas the present valuation is 40,319 millions of marks, based upon the claims actually allowed up to this time. This increase of more than 100 per cent over the original estimate, taken in conjunction with the subsequent disclosure of alleged frauds on a large scale, raised a question as to the manner in which the law had been administered in respect of the classification of "old" holders. The memorandum recites the various methods of control which were exercised in proving the claims of "old" holders and states that "the difference between the estimate of the presumptive 'old' holders' claims and the definitive result cannot be explained by the assertion that a wrong classification has been made". In order, however, to remove any doubt the Finance Minister has set up an independent revisory commission under the direction of the president of the Court of Accounts which will re-examine, as a first step, some 3,000 of the larger claims.

The liability of the Reich under the war damages liquidation law of March 30, 1928, is not yet included in the statement of the public debt of the Reich. This liability, during the parliamentary debates on the bill, was estimated at about 1,348 million reichsmarks, capital value. Of this, about 250 millions were to be paid in cash to the smaller claimants, while claimants in respect of damages exceeding 20,000 reichsmarks were to receive registered debt certificates in an amount aggregating about 1,100 millions, bearing interest at 6 per cent per annum from April 1, 1929. These debt certificates, which are expressed in gold, are to be redeemed as provided in the law over a period of 19 years, by March 31, 1948, with a preference in redemptions to the smaller claims.

The issue of these registered debt certificates, according to statements in the press, is now proceeding somewhat more rapidly and is expected to be completed in the spring of 1929. About 350 millions are reported to have been issued thus far. A consortium of leading German banks has provided 25 millions to make advances to small holders up to 60 per cent of the nominal value of their bonds.

Public debt of the Reich (In millions of reichsmarks)	March 31, 1924	March 31, 1925	March 31, 1926	March 31, 1927	March 31, 1928	Sept. 30, 1928
BONDS						
Loan liquidation debt: ¹						
with drawing rights ..	—	—	1,754 ²	4,743 ³	4,548 ³	4,548 ³
without drawing rights	—	—		700	700	700
Reich loan of 1927	—	—	—	364	500	500
Totals	—	—	1,754	5,807	5,748	5,748
TREASURY CERTIFICATES						
Dollar certificates	195	—	—	—	—	—
6 per cent, repayable 1935	210	22	19	19	19	19
6 per cent, repayable 1932	42	1	1	1	1	1
"K" bonds	3	1	1	1	1	1
"E" bonds	—	251	87	—	—	—
Reichsmark bills	149	30	—	—	40	296
Totals	599	305	108	21	61	317
BANK DEBTS						
Rentenbank	1,097	1,185	1,054	922	783	717
Reichsbank	235	227	218	208	199	199
Totals	1,332	1,412	1,272	1,130	982	916
EXTERNAL LOAN						
Dollars	—	454	434	445 ⁴	423 ⁴	424 ⁴
Pounds sterling	—	433	435	429	420	419
Swedish crowns	—	29	28	27	27	27
Lire	—	17	16	19	21	21
Swiss francs	—	12	12	12	11	11
Totals	—	946 ⁵	925	932	902	902
OTHER REICH DEBTS						
Other obligations to pay	27	19	19	10	9	9
Guaranties	448	105	52	51	42	42
Credit for reclaiming farm land	—	9	12	12	12	12
Loan from the Post Office	—	—	—	110	60	23
Totals	475	133	83	183	123	86
Grand totals	2,406	2,796	4,142	8,073	7,816	7,969

¹ Provisional estimate.
² Nominal value.
³ Capital value including premium on redemption.
⁴ Redemption value.
⁵ Difference due to rounding off.

The Association of Savings Banks has offered to purchase certificates of the smaller holders at fixed prices varying with the date of redemption, and the Association of Berlin Banks has also made offers of purchase. The certificates are being dealt in unofficially on the stock exchanges of Berlin, Hamburg and Frankfurt.

The table on page 90 shows the reported public debt of the Reich at the close of each of the last five financial years and on September 30, 1928. It is taken in part from the Finance Minister's annual memorandum on public loans and in part from Wirtschaft und Statistik. The reported debt of September 30, 1928, aggregated 7,969 million reichsmarks, consisting of 382 millions of Treasury bills, advances from the Post Office, and various guaranties, and 7,587 millions of long-term debt. The long-term debt consists mainly of obligations with fixed maturities, the redemption of which is spread over a considerable period; the External Loan of 1924 matures in 1949, but in the meantime is redeemable for sinking fund purposes either by purchase on the market or by drawings; the internal loan of 1927 is redeemable by annual drawings from 1934, but total redemption is possible from 1937; the loan liquidation debt is redeemable by drawings only, extending over the whole period of redemption; while the war damage liquidation debt, which is, however, not yet included in the official debt statement, is to be redeemed in tranches, with priority to the smaller holders. The various redemption periods are as follows:

	Amount outstanding September 30, 1928 (In millions of reichsmarks)	Redemption period
Loan liquidation debt:		
with drawing rights	4,548	1926 to 1955
without drawing rights	700	Not yet fixed
Reich loan of 1927	500	1935 to 1959
Treasury certificates (other than current reichsmark bills)	21	1932 to 1935
Bank debts:		
Rentenbank	717	1925 to 1934 (at latest)
Reichsbank	99	1925 to 1939
	100	Not earlier than 1974
External Loan	902	1924 to 1949
War damage liquidation debt cer- tificates	1,100 (estimated)	1929 to 1948

As at present constituted, therefore, all of the long-term debt of the Reich is to be redeemed according to its terms by 1959, except the 700 millions of revalorized debt certificates which are at present without drawing rights, and 100 millions of the debt due the Reichsbank.

The published statements of the public debt of the Reich include, as indicated above, a sum representing the various guaranties which were contracted during and after the war mainly in respect of food purchases abroad. They do not, however, include anything to show the contingent liability of the Reich arising from the many

guaranties undertaken in recent years in aid of industry, foreign trade, agriculture and housing. No list of these guaranties has been published, but the Minister of Economics stated in the Reichstag, March 15, 1927, that they then aggregated 488 millions, of which about 370 millions were in respect of credits for industry and foreign trade, the largest being a credit of 300 millions to finance trade with Russia. The Russian credit has now begun to be liquidated and it is expected that by the end of 1928, about 70 millions will have been repaid to the lenders. The supplementary budget for 1927-28 and the budget for 1928-29 authorize further guaranties of 233 millions, principally in connection with credits to promote foreign trade and agricultural relief. Under the law of March 7, 1928, the Reich is also authorized to guarantee credits up to 200 millions in connection with the construction of small dwellings. The present liability of the Reich under these authorizations is not known, but in the budget of the present year 12 millions are set aside to cover losses under guaranties and in the preceding year 14 millions were set aside for the same purpose.

b. The Public Debts of the States and Communes.

The figures for the public debts of the States and communes are not yet officially available, but under the decree of June 23, 1928, already described, the Reich has required them to furnish regular statements of their indebtedness. The first statement will show their debts as of March 31, 1928. Pending the official publication of these statements the Economic Service of the Transfer Committee has made an estimate of the debts of the States and communes on the basis of the loans issued since September 1, 1924. This estimate is given with the following reservations, which, however, tend to offset one another: (a) some of these loans may have been issued to refund or consolidate previous loans, (b) not all of the loans may be included, since only those issued to the public are known.

The indebtedness of the States and communes at the commencement of the stabilization period is not known. Their debts expressed in marks had been eliminated by the inflation of the currency. Some of them had debts outstanding expressed in foreign currencies or in gold, but the volume of such indebtedness was small. It was not until 1925 that the markets opened to loans of the States and communes. In that year they borrowed about 450 millions, mainly on the foreign markets. In 1926 a further 1,650 millions of loans were issued; the foreign markets were increasingly accessible, and a domestic market for these obligations also developed. In 1927 the borrowings of the States and communes were about 900 millions. In the first nine months of 1928 they issued about 1,000 millions of loans, bringing the total issues, foreign and domestic, up to about 4,000 millions. About one-third of this amount represents loans of the States and about two-thirds loans of the communes.

In addition to the direct borrowings of the States and communes the reply of the German Government to the Memorandum of October 20, 1927, stated that these authorities had guaranteed the issues of certain public and semi-public undertakings in which they have a capital participation, but the amount involved at present is not known.

Comprehensive official statistics of the floating debt of the States and communes are entirely lacking. Prussia, according to the monthly financial statement issued by the Prussian Finance Ministry, had 70 millions of floating debt on October 31, 1928. The German Municipal Association (Städtetag) estimated the floating debt of the communes with a population exceeding 25,000 at about 700 millions on June 30, 1928. This amount represented the floating debt destined ultimately to be converted into long-term debt; in addition, short-term credits to an estimated amount of 120 millions had been taken up to establish or replenish working funds.

These estimates of the public debts of the States and communes do not include their revalorized paper mark debts, concerning which official information is not yet available. In the case of the States the amount involved is probably small, as the Reich assumed responsibility for the greater part of the paper mark debts of the larger States when it took over their railways. In the case of the communes, the German Municipal Association puts the revalorized debt liability of communes with a population exceeding 25,000 at about 690 millions on June 30, 1928. Of this amount about 550 millions represent bonds with drawing rights, about 20 millions bonds without drawing rights, and about 115 millions debts of private industrial undertakings subsequently taken over by the communes.

VI. German Credit Conditions and the Currency.

It appears from the official figures that normal forces have again asserted themselves in many departments of the German economy. The tendency to revert to normal is not solely a product of the past year but is the result of a long process, first set in motion in November, 1923, at the time of tentative stabilization, and accelerated in the following year with the adoption of the Experts' Plan. During the intervening years it has been possible for the Reichsbank, as the central credit authority, to drop one after another various emergency measures of control and to rely instead upon influences of a more moderate and usual character. More broadly, the fluctuations which up to the spring of 1928 manifested themselves at short intervals in the state of business activity, in foreign trade, in commodity prices and in economic conditions generally have much diminished in extent and frequency with the result that German production, trade and finance have taken on an aspect of steadiness not visible since the war. All of this reflects the broader base upon which German business as a whole is now being conducted.

In any analysis of the present position of the German economy, it is necessary to keep clearly in mind conditions existing at the time the present development started. The war and the inflation had left German credit ruined and economic life crippled. The centrifugal forces which the inflation released had driven capital and goods out of the country, and equally powerful forces operating internally had broken down the machinery of trade and had shifted a considerable part of the population from the creditor to the debtor class. From such a starting-point economic reconstruction had to begin. In judging the results thus far attained, the conditions existing in 1913, when Germany had forty years of peace behind her, cannot be used for purposes of exact comparison, because the changes which the war and inflation caused not only in Germany but in the world at large have been too broad and too deep to permit of it. These changes included sweeping alterations in the social and economic framework of Germany, and when at last the forces of reconstruction were brought into play, they had to function with reference to a structure which had fundamentally changed. Accordingly, it is necessary to examine the present in terms of the period at the close of the inflation; otherwise the full meaning of the progress made up to the present will be lost.

The work of reconstruction turned largely on the question of credit, which has proved to be one of great difficulty. This problem as it stood in 1924, stated briefly, was to finance arrears of construction left over from the war and the inflation, to reaccumulate working capital scattered or lost, and to supply funds for remodelling the processes of trade, agriculture and industry wherever they had fallen out of step with progress elsewhere. All of these demands were urgent and exerted a great pressure for credit wherever it was to be found. But in supplement to these and other requirements inherited from an earlier time, new demands

made their appearance which were characteristic of the new period. The public authorities, in addition to such borrowing as they did for making up arrears of construction, sought credit in large amounts at home and abroad in connection with ambitious programmes of extension and improvement. Agriculture, by reason of special difficulties confronting it, also became a heavy and consistent borrower. These demands pressed mainly on the market for long-term credit, but side by side with them, as the activity of industry and trade began to gather momentum, there came heavy demands for banking and other short-term credit for the purpose of carrying goods through the various stages of production and distribution.

To satisfy this combination of demands, Germany had at the outset almost no means at all. But according to the official figures, the volume of credit outstanding in Germany has increased in the four years since 1924 by nearly 40,000 million reichsmarks, nominal amount, about evenly divided between short- and long-term credits. For a part of the increase Germany turned to the foreign lender. There are no official figures except in the case of long-term loans to show what proportion was obtained in foreign markets. But if the proportions for long-term credits can be assumed to apply to the total, it appears that about 30 per cent of the new credit was obtained in foreign markets and about 70 per cent in the domestic market. This does not take account, however, of foreign purchases in the domestic market of new or outstanding issues, which in certain instances are known to have been large. Accordingly, the share of foreign credit in the total is probably somewhat above the percentage shown.

The rapid growth of credit which the urgency of the demand implied carried with it the danger of over-expansion, with the usual results in the shape of speculation, rising prices, heavy imports, and ultimately in the depression of the entire economic system. Indeed, such a danger threatened in and about the twelve months of 1927, when business was responding to the very free use of credit, especially on the part of the public authorities. In the spring of 1927 stock market speculation reached an acute stage, which was corrected only through the radical curtailment of stock exchange credit on the part of the banks. The general range of prices was rapidly rising, particularly of those manufactured articles which pass directly to the consumer, and were largely cancelling out advantages which the worker might otherwise have derived from higher wages. Quickened domestic business was calling for a much larger volume of imports than a slowly rising volume of exports could balance, and in January, 1928, the foreign trade deficit was larger than at any time since Germany recovered her freedom of action with respect to her commercial foreign relations. Similar evidences were accumulating in the field of industry and in certain lines there were signs of over-production.

At the close of 1928 it appears that the over-expansion of which these various developments were the earmarks has been checked before it took on dangerous proportions. In the spring of this year a moderate recession took place in the volume of industrial production. Among the industries for which figures are available,

pronounced declines took place in the output of steel, iron and textiles; in others, as for example in coal and lignite, there was little change. The effects on the whole were merely to bring down the general level of production to that which prevailed in the early part of 1927, a period already of very substantial output. The elimination of the effects of credit expansion was observed in other directions also. Commodity prices developed relative stability, particularly in the group of prices which had mainly accounted for the previous rise, that is, industrial finished goods. The margin of imports over exports gradually narrowed, and in September, 1928, the two were approximately equal. To some extent this was the result of a decline in imports, but of greater importance in the long run was the fact that exports, continuing the general rise which had been in progress for many months, reached effective equilibrium with imports at the point of about 1,100 million reichsmarks for the month. Before September, 1928, the last previous occasion when exports and imports came into balance after a long period of deficit was in 1925, at a point about 300 millions lower.

One effect to be anticipated from the larger volume of exports was some relief on the score of foreign borrowing. But interest rates in Germany have continued sufficiently high to attract foreign money to the German market, and recently these funds have come largely in the shape of gold. During the five months ended November 30, 1928, gold to the amount of 540 million reichsmarks flowed to Germany in natural course and was sold to the Reichsbank at its counters. This movement was in marked contrast with the gold imports undertaken by the Reichsbank at an earlier time, when acting on its own initiative it bought gold in foreign markets and brought it to Germany for the purpose of strengthening its reserves. As the inflow of gold in recent months has itself implied, the reichsmark has long maintained a place in the foreign exchanges as one of the strongest currencies in the world.

The general volume of consumption in Germany appears to have maintained itself during 1928 at or about the high level of the year before, and may be regarded as one of the principal factors which checked the decline in business activity that started in the spring of this year. More broadly, it is an important indication of the standard of living to which the great mass of the German population has attained. Since the end of 1924, when wages were still much depressed on account of the inflation, the increase in the general level of wages has amounted to about 40 per cent, and after allowing for the rise in the cost of living in the meantime, the increase of so-called real wages has been about 23 per cent. But if the position of the wage-earners has much improved, the economic condition of certain other classes of the population, particularly those which formerly derived a portion of their incomes from paper mark obligations, remains difficult. Figures do not exist to show the bearing of recent developments upon their economic position, but it is very doubtful if many have yet succeeded in reaccumulating the funds lost in the inflation.

Before proceeding to a detailed consideration of recent credit developments, it is necessary to bring together certain points touched

upon in the preceding paragraphs. Normal forces have again begun to operate in almost all branches of the German economy, giving evidence of greater stability and of a broader and deeper basis of credit. Much progress has been made in overtaking the arrears left over from the war and the inflation. But capital has not yet been reaccumulated in sufficient volume to take care of what remains to be done, plus the supplementary projects and requirements which currently present themselves on the credit markets.

In the following pages the various forces operating on the supply of credit and the demand for it are analyzed, and in later chapters German foreign trade and business activity are discussed. In all cases new developments are considered against the background of conditions four years ago, when German reconstruction was beginning.

a. Phases of German Credit Development.

The central problem which Germany faced when she emerged from the inflation was that of rebuilding her credit resources. The inflation had scattered or destroyed them; funds were to be obtained at home only rarely and then at ruinously high rates of interest, and the ordinary sources of foreign credit were closed. The first efforts to stabilize the currency corrected these conditions only partially, and it was not until stabilization was reinforced and insured that German credit began to attain its present position. The steps required to bring about this result were laborious and often painful, but taken together they have furnished the basis for the progress made in the whole field of German economic reconstruction.

The term credit in this connection is not used in any limited sense, but is meant to imply the firm basis of mutual confidence which is essential in the establishment of human relationships and the conduct of domestic and international business transactions. Credit so understood is not confined to material questions of collateral and security, important as these are, but involves at its very root the factor of good-will. Moreover, the factor of good-will, if it is to produce the results of which it is capable, must work both ways and be exerted from the side of the creditor as well as from that of the debtor. This two-sided exercise of good-will was called for in a high degree by the Experts' Plan, both at the time when Germany and the creditor countries accepted it and throughout the four years of its operation. Accordingly, it is appropriate to recall briefly, as a preliminary to the discussion of other phases of credit development during the past four years, the special function of the Experts' Plan with regard to German credit.

1. The Experts' Plan and German Credit.

From the very outset there were two main features of the Experts' Plan which were universally recognized and which exerted a potent force in the direction of rebuilding German credit. The first of these was that the payment of reparations, long a factor of deep disturbance, had become a matter for administration along economic lines. The second was that Germany had voluntarily accepted the obligations which the Plan imposed, and,

furthermore, that it was to Germany's own interest to carry them out. These two factors, along with measures already undertaken by the Germans themselves, provided the psychological basis for the rebuilding of German credit. Assurances of a more tangible sort were given in the specific provisions of the Plan, particularly those directed toward the correction of fundamental weaknesses in the existing economic structure.

It will be recalled that the first Committee of Experts was invited to consider "the means of balancing the budget and the measures to be taken to stabilise the currency" of Germany. On November 15, 1923, some fifteen days before the Reparation Commission took its decision to summon the Experts, the rentenmark made its first appearance in Germany. It was introduced in the final stages of inflation for the purpose of providing a new form of currency which it was hoped would remain stable. Two months later, when the Experts began their inquiries, the domestic value of the rentenmark was still stable, but that did not mean that the currency was effectively stabilized. Instead, the Experts described it as being in a state of "unstable equilibrium" from which the elements of permanent stability were wanting. Nevertheless, even with this uncertainty the general position was much improved. The improvement was not owing to any technical merits of the rentenmark as currency, though its management commanded respect; the improvement was due rather to the renewal of confidence resulting from the appointment of the Experts, together with fresh efforts on the part of the German Government to balance the budget and a new and vigorous policy at the Reichsbank.

The Experts regarded the two problems of currency and budget as interdependent, neither one of them being soluble without the other. The currency could remain stable only if the budget was kept balanced, and, on the other hand, the budget could remain in balance only if the currency was stabilized. The recommendations of the Experts for dealing with both problems are well known, and need not be reviewed here except in one or two particulars of special relevancy to credit.

In order to meet the currency problem, the Experts proposed that the Reichsbank should be reconstituted and that with certain minor qualifications it should have the exclusive right to issue paper money in Germany; its power to make loans to the Government should be strictly limited both as to amount and character, and its activities must be entirely free from Government control or interference. Reichsbank policy as it developed and the administration of the currency will be treated in separate sections of this chapter. The Experts also made specific recommendations as to the measures to be taken for balancing the German budget and for meeting the Treaty charges on reparation account; these have already been discussed in their proper relations in the chapter on the German budget.

The Experts' proposals for dealing with the reparation charges had a more general but still important bearing on the question of German credit. In the first place, the payments due from Germany under the Plan were to be all-inclusive and as to any given year were to be specific in amount, thereby eliminating a distracting

factor of uncertainty in making up the expenditure side of the budget. Second, the budget during the first year of operation was to be relieved of reparation payments altogether, the bulk of the payments in this year being financed out of the proceeds of the German External Loan, 1924; and thereafter the budget was to provide only a portion of the total, the remainder coming from the German Railway Company and German industry. Third, the Experts distinguished between the internal payment of reparations and their transfer abroad. The Experts, though confident that it was "within the power of the German people to respond to the burdens imposed by the Plan, without impairing a standard of living comparable to that of the Allied countries and their neighbours in Europe", were not prepared to "speculate on the amount which can annually be paid in foreign currency". Accordingly, they set up machinery which would leave open to current determination the amounts to be transferred each year to the creditor Powers. This machinery was concentrated in the Transfer Committee, which was charged with the duty of regulating the execution of the programmes for deliveries in kind and Reparation Recovery Act payments in such a manner as to prevent difficulties arising with the foreign exchange, of controlling the transfer of cash to the creditor Governments by purchase of foreign exchange, and generally of so acting "as to secure the maximum transfers, without instability of the currency". In case the payments by Germany on reparation account, in the long run, should exceed the sums that could be transferred, provision was made for dealing with the resulting accumulation in the Reichsbank.

The Experts' Plan thus laid the necessary groundwork upon which other forces have built. It put the problem of reparation administration on a business basis, and removed reparation payments as a source of danger to the currency. More broadly, it offered a practicable solution of the double problem of stabilizing the currency and balancing the budget, which, as the Experts said, implied the restoration of Germany's credit both externally and internally.

2. Reichsbank Credit Policy.

Reference has already been made to the beneficial effect upon the currency of a new and vigorous policy at the Reichsbank during the period of tentative stabilization. The new administration took office on January 1, 1924, shortly before the first meeting of the Experts. It was confronted with the practical problem of preventing a new credit expansion which would weaken the rentenmark and cause a relapse into inflation. The bank rate was 10 per cent, the rate for day-to-day money on the Berlin Bourse ranged at times as high as 100 per cent, the Reichsbank's stock of gold was only 467 million marks and tended to fall even from that level, and foreign exchange rates though maintained at gold parity at home had been falling to a discount abroad. The demand for credit was very heavy, in some degree owing to the impression on the part of certain borrowers that a new inflation was inevitable and that loans then contracted could be repaid in depreciated currency, and in part also to the conditions which the provisional stabilization

itself imposed. These difficulties were indeed severe, but the situation was tranquil in comparison with the chaos which preceded it; the problem was to keep the currency stable until such time as adequate measures could be taken to support it.

The Reichsbank administration did not raise the discount rate above 10 per cent, believing that the forces at work were moving too fast to yield to this method of control. Instead, on April 7, 1924, it announced that the Reichsbank would not discount bills to an amount in excess of its then existing portfolio, and proceeded to ration credit within that limit. An active liquidation of commodities and shares followed with a corresponding fall of prices, a large part of the German-owned balances abroad was brought back to Germany, and the weakness of the foreign exchanges was gradually corrected. A second measure taken at the instance of the Reichsbank administration was the establishment of the Gold Discount Bank, which was effected under a law passed on March 19, 1924. In some sense the essential purpose which the Gold Discount Bank was intended to serve, namely, that of providing a genuine gold-secured currency, anticipated the currency functions later given to the Reichsbank under the legislation passed in connection with the Experts' Plan. As a matter of fact, the Gold Discount Bank never exercised its currency function, but it did succeed in providing considerable credits in foreign currency and as such was a factor in maintaining stability pending the adoption of broader measures.

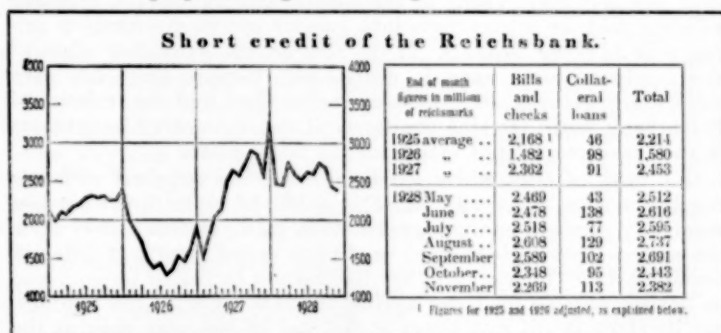
The proposals of the Experts for the reconstitution of the Reichsbank were put into form of law on August 30, 1924, along with the other legislation required to make the Plan effective. On October 11, 1924, the formal reconstitution took place without disturbance to the Reichsbank's business. Outwardly there were few signs of change, except that the old paper mark currency began to disappear and new reichsmark notes of the Reichsbank began to take its place, at the rate of one reichsmark of the new currency to one billion (a million million) marks of the old. The changes were nevertheless fundamental. The Reichsbank's position as a private corporation independent of the Reich, which it had acquired for the first time some two years previously, was strengthened and reinforced; it acquired the exclusive privilege of issuing notes, with only minor and non-essential qualifications; and had the specific obligation "to regulate the circulation of money in the whole area of the Reich". While its independent character as a German institution was protected, a General Council was created, the membership of which was to be evenly divided between German nationals and foreigners; one of the foreign members was to serve as Commissioner of the Reichsbank, whose primary function was to see that the provisions of law with respect to the note issue and its gold cover were carried out; the gold cover was to amount at least to 40 per cent of the notes in circulation, with the proviso, however, that one-quarter of that cover could take the form of *devisen* (foreign exchange) meeting specified requirements; and the power of the bank to discount paper secured by Government obligations or to make loans to the Government was narrowly restricted. All of these provisions have remained unmodified up to the present

with the exception of the last-named; the law was amended on July 8, 1926, with the approval of all concerned, so as to permit the Reichsbank to discount for the market short Treasury bills of the Reich and to make loans secured by them up to an aggregate of 400 million reichsmarks for both classes of transactions.

Since the date of the reconstitution of the Reichsbank the stability of the German currency has not come into question. Domestic price movements and the quotations of the reichsmark in the foreign exchanges, the two chief evidences of the condition of a currency, have remained within the limits set by the gold standard. Thus relieved of its emergency character, the administration of the currency has been subordinated to the broader problem of the supply and control of credit. This problem has proved to be extraordinarily complex, and while as a whole it has been within the field of the Reichsbank's influence, only certain parts of it have stood directly within its authority. For the sake of orderly treatment only the latter will be dealt with at this point, and the discussion will be limited to three aspects only, the management of Reichsbank short credit, the relation of its discount rate to other money rates, and its accumulation of gold reserves.

(a) Control of Reichsbank credit.

The policy of rationing credit which the Reichsbank initiated on April 7, 1924, had the double purpose of preventing abuse of its credit facilities and of apportioning the available supply of credit among those borrowers who in its opinion were most deserving from the standpoint of the general good. By the end of June, 1924, the situation had somewhat clarified and the Reichsbank increased the limit within which it was prepared to grant credits. When the Expert's Plan went into effect two months later, the policy was still in operation; its stringency was gradually relaxed up to January, 1926, when it was publicly abrogated. During that period, accordingly, the volume of loans made by the Reichsbank does not fairly reflect the demands made upon it, but rather the extent to which it was prepared to go in meeting them.



On October 31, 1924, the first month-end after the reconstitution of the Reichsbank, its total short credit, exclusive of devisen eligible for note cover, amounted to 1,929 million reichsmarks. This is an

adjusted figure, representing more accurately than the published totals the amount of loans actually made by the Reichsbank for the accommodation of borrowers. It is based upon the two statement items "Bills and Checks" and "Lombard Loans"; but it eliminates some 700 millions of agricultural bills later transferred to the Rentenbank and includes the existing liability on account of endorsed bills sold from its portfolio to various of the public offices. It is necessary to make such adjustments in the reported totals up to a date as late as the middle of 1926 in order to establish a proper basis for comparison with the figures for later periods. Such adjustments have been made in the foregoing table and diagram, which show the fluctuations in the volume of Reichsbank short credit during the past four years, including at the very end of the period small amounts of discounted Treasury bills of the Reich or loans secured by them. From the total of 1,929 million reichsmarks as it stood immediately after the Reichsbank was reconstituted in October, 1924, the total of short credit rose to an average during 1925 of about 2,200 millions. Thereafter, under the influence first of the business depression and then of the rapid inflow of foreign funds, the total averaged during 1926 at less than 1,600 millions. In 1927, in response to a low discount rate in the first half of that year, and then in reflection of a large increase in business activity attended by a general credit expansion, the volume of Reichsbank short credit averaged about 2,450 millions; and at times, as for example over the turn of the year, it stood much above that level. This average was fairly maintained during 1928, up to the autumn, when the volume of short credit tended to fall, in connection with developments which will be presently described.

The figures for Reichsbank short credit taken by themselves do not, of course, represent fully and exactly the amount of credit which the Reichsbank has released from time to time to the other banks and the public. Other assets must also be taken into account, because the acquisition of an asset of whatever sort makes a corresponding amount of Reichsbank credit available for use. Credit thus released may return to the Reichsbank by way of repaying existing debt, or it may pass into general use in the form of currency or banking deposits. If the former, the expansive effect of the newly acquired asset is neutralized, because there has been merely an exchange of one asset for another and the volume of Reichsbank credit remains unaltered; if the latter, credit expansion in the broad meaning of that term has taken place.

One form of asset which the Reichsbank has acquired with fair regularity since its reconstitution is gold and, with somewhat less regularity, devisen interchangeable with gold. But the effect upon the general level of Reichsbank credit has varied greatly at different times. In 1926, for example, the Reichsbank increased its gold and its devisen eligible for cover against the note issue by 740 millions, but its short credit was lower at the end of the year than at the beginning by 486 millions. Thus, nearly 500 millions of the incoming gold was neutralized by a corresponding decrease of short credit, notably bills, checks and collateral loans; but the net effect was an increase of about 250 millions in the volume of Reichsbank

credit made available to the banks and the public. In 1927, as a result of the low discount rate at the Reichsbank during the first five months, the stock of gold and eligible devisen fell during the year as a whole by 204 millions, but the volume of short credit rose by 1,294 millions, thereby offsetting the loss of gold and devisen and causing a net increase in Reichsbank credit of 1,090 millions. In 1928 a similar comparison cannot be made because the year is not yet complete. But taking as a base the condition at the end of November, 1927, it is noteworthy that during the twelve months ended November, 1928, the gold and devisen increased by about 660 millions, whereas the volume of short credit decreased by about 190 millions. The net result was a further increase of about 470 millions in the amount of Reichsbank credit released.

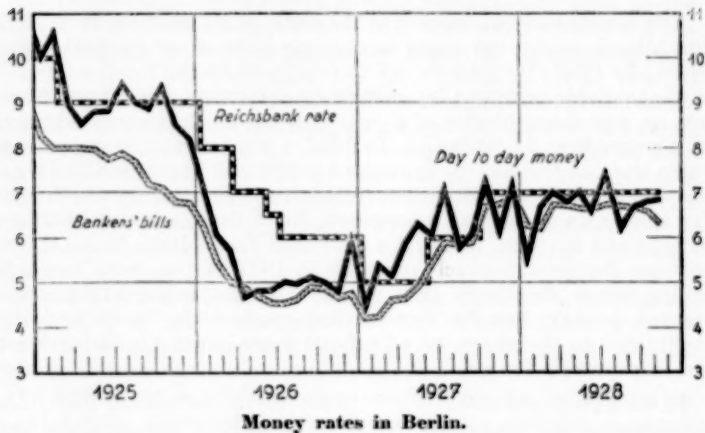
The combined effect in each of the three years has been to enlarge Reichsbank credit, the latter term being used in its comprehensive sense. In 1926 this growth, which was entirely the result of credit made available in return for gold or its equivalent, was very moderate, as was characteristic of a year half of which covered a period of depression and liquidation. In 1927, a year of rapidly expanding trade and production, the growth of credit was exceptionally large, but it was made up altogether of loans, the increase in which was far more than enough to compensate for a decline in the holdings of gold and devisen. In 1928, a year thus far of large business but without the growth which occurred in 1927 and in some respects falling below the levels then attained, Reichsbank credit has increased further; but the increase has reached the banks and the public not in the shape of additional loans from the Reichsbank but in payments for gold.

In the past few months, that is to say, in the autumn of 1928, this development has been particularly pronounced. The portfolio has diminished and the gold stock has rapidly risen. The increase in the gold stock is due to a set of conditions which will be discussed at length in the section of this chapter dealing with the Reichsbank's gold policy. The decline in the volume of Reichsbank loans taken by itself and without allowing for the rise in the gold stock, would imply a moderation of business activity and a slackened demand for loans. The closing of the steel mills in the Rhenish-Westphalian district during the month of November, 1928, may have exerted, for instance, some influence toward liquidating stocks and diminishing the demand for currency for wage payments; and other influences may also have been at work toward restricting the demand for credit. But after making due allowance for all such influences, it appears on the face of the figures for loans and gold together that the effective demand for Reichsbank credit remains high.

Two observations are to be made in connection with the foregoing: first, that there has been no restriction of Reichsbank credit over a year ago, but on the other hand, that its volume has increased; and, second, that the entire increase has been more than covered by additions to its gold reserves. The position of the Reichsbank has been consolidated, and it has made itself an even more powerful factor than heretofore in maintaining the financial stability of Germany.

(b) *Reichsbank rate and market rates.*

During the past year the Reichsbank has been able to exert its influence over the money market more effectively than through any similar length of time in the past four years. The Reichsbank has been able to rely mainly on the discount rate as the normal means of dealing with the market, and on the whole its rate has been in effective relation to money rates in general. This marks a change in the direction of stability from the prolonged period of broad fluctuations in money rates, during which the Reichsbank often found itself widely detached from the market and with limited power to exercise its influence except through the adoption of extraordinary measures of control.



The technical ineffectiveness of the Reichsbank rate during the period up to about a year ago had its origin largely in the difficult and sometimes contradictory conditions confronting the credit markets. As has already been seen, the almost complete lack of funds in the German market immediately after stabilization created a pressure on the Reichsbank which could not be controlled by the rate alone; in consequence, the Reichsbank at that time, though maintaining a rate well below the market, set a strict limit on the amount of credit it would grant. The gradual relaxation of this pressure permitted the Reichsbank to moderate its control and in the early part of 1925 to reduce its rate to 9 per cent, but it was not until the secondary stabilization crisis in the winter months of 1925-1926 that the control was lifted altogether and the rate further reduced. But even with abrupt and successive reductions, the Reichsbank rate remained well above the typical rates for short money in the market. A rising volume of speculative transactions on the stock market beginning early in 1926 was financed in considerable part from foreign sources, and the inflow of foreign funds for that purpose and in connection with active foreign borrowing on the part of the States and communes detached the Reichsbank still further from contact with the market. Its loans rapidly declined, because borrowers were able to satisfy their needs

elsewhere at lower rates than the Reichsbank charged. In order to stem the inflow of foreign money, the Reichsbank took advantage at the beginning of 1927 of a temporary period of quiet on the stock market and lowered its rate to 5 per cent. This rate it kept in force for the first five months of 1927, with important consequences. The inflow of foreign funds reversed itself and German-owned funds began to move abroad, so that the Reichsbank lost about one milliard reichsmarks of devisen. The expansion of Reichsbank credit which took place simultaneously was attended by the most active speculation that has occurred in Germany since stabilization, calling ultimately for direct intervention on the part of the Reichsbank and the bankers. It was not until the Reichsbank made two increases in its rate, the second in the autumn of 1927, that contact with the money market was re-established. This contact has remained fairly close for a full year, that is, until the autumn of 1928.

Within recent weeks, however, there has been a well-defined tendency for the margin to widen between the Reichsbank rate and other short-term money rates, owing to the fact that the bill rate, in common with various other market rates, has tended to decline. It is noteworthy that this decline in Berlin money rates has taken place during a period when money rates were ranging exceptionally high in New York, which has been the principal source for German foreign loans in the past few years and continues to be an important one. In Paris and London also the recent tendency for money rates has been upward. The decline in Berlin rates in the face of a rise in important foreign markets does not appear to be associated with any marked recession in the internal demand for money; on the contrary, as will be seen in a later section of this chapter, the volume of bills drawn and the loans of the principal German banks rose in October, 1928, to the highest point reached since stabilization. In November the stoppage of work in the steel mills of Rhenish-Westphalia may have exerted some influence in the direction of liquidation, but it does not appear to have been sufficient to account for money market developments. The main influence appears to have had its source in the long continued import of gold.

The relation of the Reichsbank rate, apart from other money rates, to the inflow of gold, calls for some clarification at this point. The Reichsbank as a lender to German banks and bankers is now and has been in competition with the foreign banker. If the Reichsbank's rate is enough higher than the rate offered by the foreign banker to offset fluctuations in the foreign exchange, the German banker desiring to borrow is likely to borrow abroad. The same rule holds good if the German banker possesses only a limited stock of bills of the sort eligible for purchase by the Reichsbank, and yet is able to borrow abroad on other security or against deposit credit. One or both of these conditions has prevailed more or less consistently since 1924, with the exception of a period in the early part of 1927 to which reference has been made. In recent months the inflow of new credit from abroad has to a considerable extent taken the form of gold, which of course strengthens the position of the Reichsbank as a potential lender and at the same time, other things being equal, tends to lower rates in the market.

It then becomes a question for the Reichsbank to decide whether it will reduce its rate and attract the demand for credit to itself, thereby putting a check on the inflow of gold, or continue through the sympathetic effect its rate has upon money rates in general to discourage the undue use of credit on the part of the ultimate borrower.

Before passing on to a fuller discussion of gold imports as they have been related to Reichsbank policy, it is appropriate to emphasize the importance of these various developments. Normal forces have largely reasserted themselves. The broad fluctuations of the earlier periods have given way to comparative steadiness in the money markets, and it has been possible to replace emergency measures with ordinary methods of control.

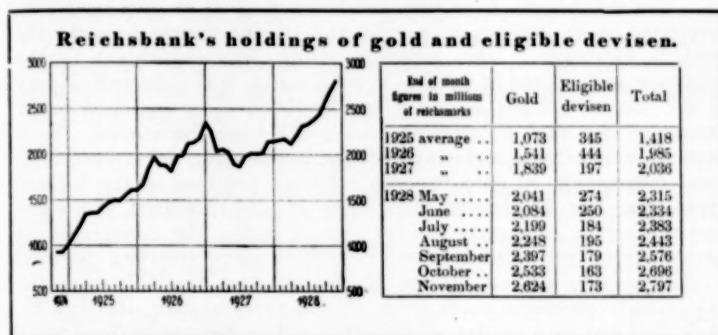
Nevertheless, the level of interest rates in Germany remains high. Fundamentally, this is due, of course, to the fact that the formation of new liquid capital has not yet caught up with the demand. This is a phase of German economic conditions which will be discussed at length in another part of this chapter. To some extent also the high cost of money to the borrower is due to the multiplicity and complexity of the German banking system. But the fact should not be lost sight of that the present 7 per cent rate of the Reichsbank not only reached that level but has remained there throughout the period of largest business activity which Germany has seen since the war; and, further, that it has helped to attract a very large volume of gold from abroad which recently has brought a certain relief to short money rates in general.

(c) Gold accumulation.

During the twelve months ended November 30, 1928, the Reichsbank's stock of gold rose by 767 million reichsmarks. With a decline of 109 millions in its devisen eligible as reserve against notes, the result for the twelve months was a net increase in the reserves amounting to somewhat more than 650 millions. The bulk of this growth took place in the second half of the year, the consequence of a rapid flow of gold toward Germany. The nature of this inflow differed from that of any earlier period, because by far the largest part of it came to Germany in response to natural forces, whereas at earlier times the Reichsbank had followed the practice of buying gold in foreign markets as part of its considered policy with respect to the accumulation of gold reserves. The importance of this contrast will appear in the course of considering the growth of the Reichsbank's stock of gold to its present proportions.

In the spring of 1924, the Reichsbank's total stock of gold and devisen amounted only to 442 millions, the smallest amount held since 1893, when, however, gold was in circulation in the shape of coins. In the autumn of 1924, at the time of the Reichsbank's reconstitution in connection with the Experts' Plan, the stock of gold had risen to 614 millions, which with 205 millions of devisen eligible under the law as cover for notes, gave less than 820 millions

of legal reserves all told. This amount was altogether inadequate to support the substantial increase in the Reichsbank circulation which future business expansion would require. Accordingly, it was necessary for the Reichsbank to proceed with all reasonable speed to replenish its stock of gold.



It will be seen from the foregoing diagram and table that the growth of the reserves, while not altogether consistent as to the extent of the increment month by month, has been seriously interrupted only once. The force attracting gold to Germany has been, of course, the generally high level of interest rates and along with it the high level of the Reichsbank discount rate; it was indeed the temporary relaxation of the latter force in the first half of 1927, as has been noted in the preceding section, which accounted for the outflow of gold and devisen at that time. Taking the period as a whole, the pressure of the money rates kept domestic funds at home and attracted funds from abroad, part of which took the form of gold imports.

On November 30, 1928, the Reichsbank's stock of gold amounted to 2,624 million reichsmarks, somewhat more than double the amount held by the Reichsbank on July 31, 1914, when the total was 1,253 millions, with, however, about 1,000 millions of gold in circulation. The present stock is in addition to about 173 millions of devisen counted as reserve against the note issue, and leaves out of the reckoning also a further undefined amount of devisen held by the Reichsbank but not designated separately in its statements. The largest gold holding in any period previous to the present was on November 7, 1918, when the stock of 2,550 millions included gold coins withdrawn from circulation and gold ornaments given up by the public by way of war sacrifice.

The foreign sources from which the Reichsbank has derived its increased gold during the past five years have varied not only according to changes in financial conditions throughout the world but according to the Reichsbank's own practice. It appears from the import returns published by the Reich Statistical Office that in round figures the net imports of gold from the United States have amounted in these years to about 700 million reichsmarks, from Great Britain also to about 700 millions, and from Russia, Switzer-

land, the Scandinavian countries and Holland to a further sum of about 700 millions.

The bulk of the gold derived from the United States was acquired in the first three years after stabilization. At that time funds from abroad reached the Reichsbank almost exclusively in the form of *devisen*, that is, deposits in foreign banks, foreign checks, and so on. The Reichsbank from time to time, acting on its own initiative, converted these *devisen* into gold and in due course brought the gold to Germany. This practice, which was equivalent to the purchase and import of gold as a commodity, was followed largely in the case of dollars acquired by the Reichsbank and to a lesser extent in the case of sterling and continental currencies. Such imports, deliberately undertaken by the Reichsbank, differ materially from movements of gold prompted by the position of the foreign exchanges. As the Reichsbank's stock of gold increased, it became less willing to undertake on its own initiative the conversion of *devisen* into gold, and it also assumed a more reserved position with respect to buying *devisen*. In the summer of 1927, when the States and communes were borrowing heavily abroad, the Reichsbank declined as a matter of principle to buy the proceeds of their loans, and it has taken more and more definitely the attitude toward the foreign exchange market in general that it would buy or sell only those marginal amounts required to maintain the market's equilibrium. The Reichsbank, furthermore, under date of October 18, 1927, lowered the price it was prepared to pay for gold offered over its counters to the minimum permitted by law, namely 2,784 reichsmarks per kilogram of fine gold. This action had the effect of placing somewhat lower the point in the foreign exchanges at which gold would flow to Germany in natural course.

These steps were in the direction of re-establishing fully the conditions under which international gold movements took place before the war. Beginning in July, 1928, the quotations of the reichsmark in the foreign exchanges, for reasons which will be explained in later sections of this chapter, reached the point at which it became profitable to ship gold from several foreign countries to Germany. From then until the present numerous imports of gold have taken place as ordinary banking transactions. In the five months ended November 30, 1928, gold imports caused an increase in the Reichsbank's stock of gold amounting to 540 millions.

The Reichsbank's technical position with respect to the world's gold market is, however, not yet complete. While it is legally bound to receive gold, it is not yet legally bound to pay it out. As a matter of announced policy, the Reichsbank holds itself ready in practice to redeem its notes in gold, but this obligation will not be binding in the sense of the law until the Reichsbank takes the steps which the law contemplates but which it left within the discretion of the Reichsbank to carry out. There seems to be no reason of principle or financial policy why the Reichsbank should not now take the necessary steps in this direction; and the recognition on its part of the legal obligation to pay out gold would mark the full return of Germany to the gold standard and contribute very much in the long run to the general soundness of the credit structure.

Aside from the legal step which remains to be taken, the ordinary forces determining the movement of gold have fully reasserted themselves. Now as heretofore the Reichsbank rate and other money rates exert a dominating influence in attracting funds to Germany, but the initiative as to whether those funds shall be converted into gold and brought to Germany has passed from the Reichsbank to private hands. Whereas formerly the Reichsbank bought gold in foreign markets as a commodity, bringing it to Germany at its own expense, practically all of the gold acquired in recent months has been offered to the Reichsbank at its counters, where it is obligated to take it at the legal price.

3. Function of Foreign Loans.

The dearth of capital in Germany in the first years after stabilization meant that funds, if they were to be obtained in anything approaching adequate amounts, had to come from abroad. In the four years since the Experts' Plan went into effect the nominal amount of long-term loans placed abroad for German account, excluding the value of the German External Loan, 1924, has reached a total of about 5,750 million reichsmarks, now reduced by redemption, amortization or otherwise, to an estimated amount of about 5,400 millions. This leaves out of the reckoning a large volume of short-term debt owing abroad, the amount of which remains for various reasons a matter of conjecture.

Various aspects of German foreign borrowing have been discussed at length in previous Reports. In particular, the large loans which the public authorities placed abroad have been questioned on the ground that they were often the results of too free spending, and also because they exercised a frequently unhealthy influence upon economic conditions generally. Without reference to the merits of any of these loans, it is clear enough that foreign credits as a whole have greatly accelerated the process of German reconstruction. The proceeds of foreign loans, upon entering into the German economy, have provided the essential material out of which German labor and enterprise could create new and larger domestic values. Considering conditions at the start and the funds then available, there have taken place in the last four years a growth of trade and an extension and renovation of plant such as have not been equalled in any previous period of equal length. The sound character of this growth depends, of course, primarily on the magnitude of the supplemental values created and secondly upon the capacity of those values to earn a return in excess of the cost of the borrowed funds. Taken as a whole, however, and without reference to any individual loan, it appears from such figures as are available that the new values created in Germany during the same period have aggregated several times the amount of the foreign debt incurred.

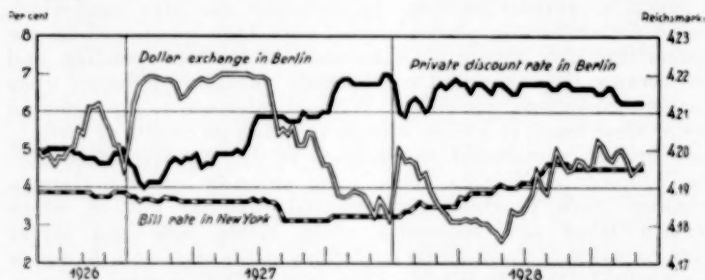
The extent of future demands from Germany upon foreign supplies of credit will be governed largely by the growth of the domestic market. Much progress has already been made in that field, as will appear in later sections of this chapter. But up to the present, the volume of the demand has been so great, particularly from the public authorities and from agriculture, that the supply has been

overtaxed. A more conservative utilization of credit by the States and communes would go far to relieve the pressure and to hasten the time when foreign loans will be less in demand.

(a) *Movement of funds and the foreign exchanges.*

In the first years after the Experts' Plan went into effect, the movement of funds toward Germany was to be regarded as a phase in the redistribution of the world's available supply of credit, which had been dislocated by the war and the more or less wide-spread depreciation of national currencies which followed. As far as Germany is concerned, the inflow of funds still belongs in some sense to the phase of redistribution of credit. But as has already been seen, Germany has also been passing into a stage of active internal development, which independently exercises a strong attraction upon credit wherever it is to be found.

The measure of the demand for credit is of course the rate of interest which the borrower is willing to pay. Throughout most of the last four years, the rate of interest in Germany has been sufficiently high to attract funds from other countries where the supply of credit was large and the going rates of interest low. The funds so attracted exercised a dominating influence over the foreign exchanges, strengthening the position of the reichsmark greatly, and often completely submerging the influences which the merchandise trade balance and other factors were simultaneously exerting.



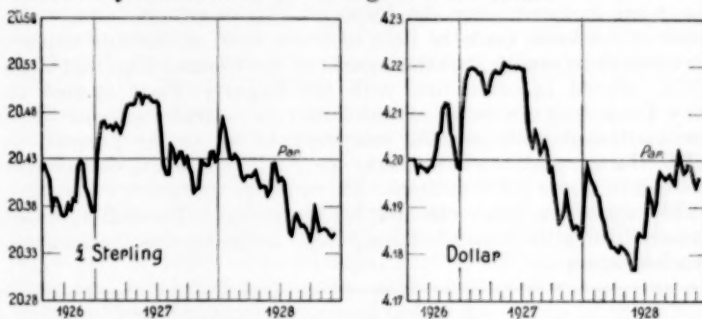
Interest and foreign exchange rates Berlin — New York.

The effect which German interest rates have had upon the position of the reichsmark in foreign exchange rates on New York is illustrated in the foregoing diagram. Since the Reichsbank did not release the reichsmark from its technical adherence to the dollar until the end of August, 1926, the diagram leaves the period up to that time out of account. For the sake of simplicity only one interest rate in each of the two countries is used, a rate which is nearly though not absolutely comparable between the two markets. It will be seen that the rate on the private discount market in Berlin has been higher at all times than the bill rate in New York. It will be seen also that when the margin widened between the German rate and the rate in New York, the value of the dollar in terms of reichsmarks tended to fall; and on the other hand, when the margin narrowed, the value of dollars tended to rise. At the end of the period shown in the diagram, that is to say in recent

months, the interest rates in the two markets were nearer together than at any time since the first half of 1927; yet the reichsmark remained above par with the dollar, whereas in the first half of 1927, it had been below par with the dollar.

This result is noteworthy, because it marks the return of steadier conditions between Germany and one of the principal foreign money markets. It was due in part, no doubt, to indirect influences upon the reichsmark-dollar exchange of money relations between Germany and other European countries. But the main influence appears to have been that exerted by a decided and progressive narrowing of the excess of German merchandise imports over exports. These reached equilibrium in September, 1928, thereby removing a heavy burden upon the exchanges. If borrowed funds continued to flow into Germany, they were free to exert their influence directly upon the exchange without first making provision for an excess of merchandise imports.

The following diagram illustrates the course taken by two important currencies in terms of reichsmarks since the summer of 1926. The dollar has been below parity with the reichsmark almost consistently since the middle of 1927. Sterling, except for a brief period at the beginning of 1928, has also been below parity with the reichsmark during the same period. On the whole, taking other currencies into account also, the reichsmark exchange has ranked for over a year as one of the strongest in the world.



Foreign exchange rates in Berlin.
(Average rates in reichsmarks for telegraphic transfers)

The abrupt decline in sterling during the second half of 1928 carried the foreign exchange rate to a point at which it became profitable for bankers to export gold from London for sale to the Reichsbank, even at the minimum rate which the Reichsbank is legally permitted to pay. These transactions were in all respects ordinary banking operations carried on without stimulation by the Reichsbank except as its rate furnished an underlying cause. As such they pointed a marked contrast, as has already been indicated in a previous section of this chapter, with transactions carried out by the Reichsbank at an earlier time, when acting on its own initiative it bought gold in foreign markets and brought it to Germany for the purpose of strengthening its reserves.

This development, along with the maintenance of a position above par with the dollar notwithstanding a decided narrowing in

the margin of interest rates between the two markets, is a sign that the ordinary forces controlling international capital movements are not only reasserting themselves, but are operating with increased freedom and steadiness in the movement of funds to and from Germany.

(b) *Volume of foreign loans.*

Out of the gross foreign indebtedness on German account only that part which has taken the form of loans publicly issued can be defined in reasonably exact terms. The nominal amount of such loans at the end of October, 1928, stood at about 5,400 millions, after making allowance for the estimated redemptions and amortizations which have already taken place. The other part of the foreign indebtedness is a matter of conjecture, comprising foreign deposits in German banks, loans to brokers, bankers' loans to States and communes, industrial and commercial credits, and so on. Figures for foreign credits granted to the principal German banks are reported four times a year to the Reichsbank, and if made public would shed some light on the total short debt, but up to the present time they have not been published. Consequently, it is impossible to give any reliable estimate either of the short debt owing abroad or of the total.

Except for the German External Loan, 1924, the foreign loans in 1924 were negligible. Almost the whole of the long-term debt has been incurred since the Experts' Plan went into effect. The bulk of the loans made in 1924 took the form of banking deposits or other short credits, but the success of the German External Loan, 1924, offered in connection with the Experts' Plan, opened the way for a long series of capital issues on German account which has continued with periodic interruptions up to the present. In 1925, German issues were sold to the public abroad in the nominal amount of about 1,250 millions. This amount was much exceeded in 1926, when the total reached 1,700 millions. Thereafter, owing mainly to smaller demands from private industry, this total was not reached again.

Foreign loans (In millions of reichsmarks)	1925	1926	1927	January 1, to October 31, 1928	Totals
Loans of States	138.6	270.6	267.3	—	676.5
Provincial or communal loans	256.0	249.5	112.5	193.7	811.7
Loans of public and semi- public undertakings:					
(a) of the Reich	161.7	25.2	336.0	152.3	675.2
(b) of the States, prov- inces and communes	202.8	351.5	205.7	530.8	1,290.8
Loans of private enter- prises	472.0	742.0	597.3	354.5	2,165.8
Loans of various church organizations	25.1	57.6	4.1	29.8	116.6
Totals	1,256.2	1,696.4	1,522.9	1,261.1	5,736.6

Somewhat more than 60 per cent of the 5,737 millions, nominal amount, of foreign capital issues shown in the foregoing table was for the account of the States, communes and the various public enterprises. In previous Reports these issues have been discussed at length. It will be recalled that foreign loans of the States and communes have been open to question on a number of grounds; their large volume, indicating overspending on the part of the public bodies; their frequency, which often brought foreign funds to Germany more rapidly than they could be usefully absorbed and thereby stimulated speculation and threatened an unhealthy expansion of trade and prices; and their relation, especially in the case of State loans, to the prior commitments of Germany in respect of reparations. These and connected questions were considered in an exchange of memoranda between the Agent General and the German Government in the autumn of 1927.

There is no occasion, in view of the extended comment previously given, to review here the dangers which these heavy borrowings threatened to the entire German economy, or to describe again the apparatus of supervision which was set up to moderate them. It is merely to be observed that up to the end of October no German State loan was issued to the public abroad during 1928, and that while the loans to the communes were unusually large in the spring of this year, since then they have been very limited in number and amount. In part, the small volume of foreign borrowing by the communes in recent months was owing to lack of interest in such issues on the American market. Very recently, that is to say around the end of November, one or two communal issues of substantial size were offered in the London market.

The foreign loans of public and semi-public enterprises for the entire period since the beginning of 1925 have amounted to nearly 2,000 millions. Of that amount about 900 millions were loans of credit co-operatives, mortgage banks, agricultural credit institutions and the like, mostly for the purpose of relending to agriculture. Such loans reached especially large dimensions during 1927 and the early part of 1928. The principal part of the remainder was for State and municipal enterprises, such as electric plants, gas and water works, housing programmes and so on. In all of these loans the public credit was more or less directly involved; in some cases they carried provincial or communal guaranties and in all cases they represented obligations of enterprises, including banks, in which the public authorities have controlling interests and responsibilities.

Foreign loans of private enterprises have been diminishing since 1926, when large industrial concerns were borrowing substantial amounts for purposes of rationalization. Since then the principal industries and trading houses have borrowed abroad more sparingly. Some have been able to finance themselves by issuing in the domestic market shares or bonds denominated in reichsmarks, with, however, some foreign participation; and others have found it possible to do without further long-term financing at all. This development is of course an indication both of renewed strength on the part of the industrial enterprises themselves and also of some periodically recurring capacity on the part of the domestic market to absorb new issues. Smaller industrial concerns whose names were

not well-known abroad or whose requirements were too small to warrant the incidental expenses of foreign borrowing have been debarred thereby from direct access to foreign funds. Latterly various credit institutions have been established with foreign participation for the purpose of supplying some part at least of the requirements of small and middle-sized concerns.

All told, foreign financing at long term has materially fallen off in the last five months, with only a moderate revival at the close of the period. From the end of May to the end of October, 1928, foreign long-term loans of all categories amounted to less than 400 millions as against nearly 900 millions in the period from January to May inclusive. To a considerable extent this reduction has been due to unusual conditions in the American market, which up to the end of August was not receptive to new issues. In the autumn there was some slight renewal of interest in German issues, particularly in those which carried incidental subscription rights for shares, but on the whole the terms which American bankers were able to offer were less favorable than previously. This had the double effect of reducing the number of long-term German offerings and of causing a larger proportion than heretofore to be placed in British and continental markets. In the light of these conditions it is interesting to observe that in the five months ended October 31, 1928, the foreign loans for public account, including loans to the public and semi-public enterprises, have exceeded in amount the long-term borrowings of private concerns in the proportion of four to one.

The total amount of the German foreign loans offered to the public since the Experts' Plan went into effect is, as has been seen, about 5,750 millions. This total leaves out of account the German External Loan, 1924, issued under the Plan in the nominal amount of 960 million gold marks, the service of which is covered in the reparation Annuities. It also takes no account of such substantial but undeterminable amounts of securities as foreigners have purchased from time to time on the domestic market. Against the latter there are partial offsets in the shape of foreign securities bought by Germans and foreign issues of German securities in part repurchased. It is possible, however, to estimate with reasonable assurance that the total has already been reduced by at least 350 millions, representing loans refunded or already paid off or partially amortized. This would leave the nominal amount of outstanding public issues, other than the German External Loan, 1924, at approximately 5,400 millions.

The present volume of the short debt must remain a matter of conjecture, pending official figures. The most recent official estimate is that of the Reich Statistical Office relating to the condition at the end of 1927. It was then estimated that the debt other than that represented in issues offered to the public amounted to between 4,600 and 5,100 million reichsmarks. This consisted of import and export credits, banking deposits, industrial credits and so on, almost entirely at short term. Against this debt there were partial offsets in the shape of sums owing from foreign countries to Germany. After allowing for these items, the Statistical Office estimated the net miscellaneous debt, mostly at short term, owing by Germany

to abroad at between 1,400 millions and 2,400 millions. Since the end of 1927, the growth in the deposits of the reporting banks, the state of the foreign exchanges and other evidences indicate that the increase in short debt may have been substantial. Such withdrawals of funds from Germany as high money rates in New York may have caused during the summer and autumn appear to have been more than offset by an inflow of funds from Great Britain, Holland, Switzerland, and particularly France. In recent weeks, that is to say in October and November, 1928, there appears to have been some diminution of the inflow of foreign short-term money, partly on account of the better position of the merchandise trade balance. It is also noteworthy that in many cases the proceeds of such loans appear to have been brought to Germany in the shape of gold, so that the increase in short-term indebtedness is to this extent directly offset by the increase in the gold reserves of the Reichsbank.

b. Domestic Credit Position.

Important as foreign funds have been in rebuilding the stock of capital in Germany, the principal increase year by year has come from domestic sources. It is impossible, of course, to set foreign funds off against domestic funds and draw a balance in terms of figures, because foreign funds have served in part as the basis upon which domestic credit has itself expanded. This fact manifests itself, for example, in the case of funds borrowed abroad which reach Germany in the shape of gold, and upon entering the reserves of the Reichsbank serve as the basis for new credit to an amount which may be greater than the amount of the gold imported. But after making due allowance for the direct and indirect influences exerted by the inflow of funds from abroad, it is clear that the greater part of new credits granted in the last few years has come from domestic sources. The most tangible evidence is to be drawn from the markets for capital issues. On the basis of the figures, the new issues of securities offered in the domestic market in the last four years have reached a total some two and one-half times the German issues offered to the foreign public. Again, the Institut für Konjunkturforschung estimates that the average annual increase in the volume of credit in Germany during the last four years is nearly 10,000 million reichsmarks. This estimate includes foreign as well as domestic credits, but upon the face of all available figures the share attributable to abroad can be only a fraction, though a substantial fraction, of the total.

But large as this annual extension of credit is, it has been insufficient to meet the demand except as the latter has been restrained by high rates of interest. The demand has come from a variety of causes, and the effort to satisfy it has been concentrated in these few years. During the war dwelling construction, for example, came to a standstill, and for various reasons was not adequately resumed during the inflation. This left a great unsatisfied demand which the large annual increase since the war in the number of families has aggravated. In the last five years, as will be seen more fully in the chapter on business conditions, more than 9,000 million reichsmarks have been spent on new

housing alone. Other urgent construction, including the rebuilding incidental to the process of rationalization, has required immense further sums. Agriculture, for reasons which will appear presently, has been a large and persistent borrower. The public authorities, borrowing on the credit of the Reich, the States and communes, have exerted continuous pressure on the market in connection with their various programmes of extension and rehabilitation, some of which could certainly have been postponed to the advantage of credit in general.

Running side by side with the demands from all of these and other sources, there have been the requirements of industry and trade for funds with which to carry on a rising volume of business. Four years ago Germany was practically devoid of working capital, and the early import of credit from abroad did not always relieve this need. On the contrary, foreign loans brought to Germany in the shape of raw materials placed a further burden upon the credit market as these materials took on greater and greater value in the successive stages of fabrication and distribution. The vigor of industrial and business activity, itself an important cause of the demand for credit, has been such that it has shown thus far a remarkable resistance to the effects of an inadequate supply.

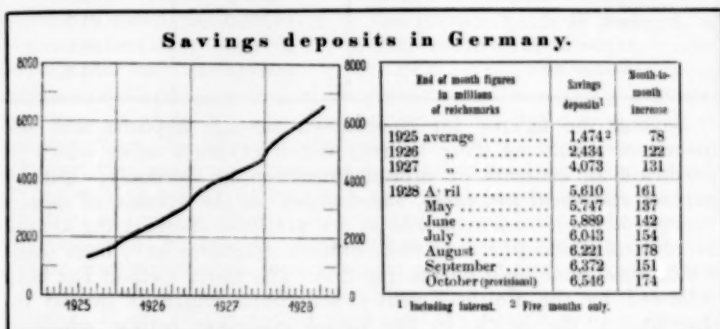
It is manifest that relief to the credit market can come only from a diminution of the demand or an increase in the supply. The arrears of construction left over from the war and the inflation have not yet been overtaken, notwithstanding the progress already made. It is to be assumed also that new demands will replace in part at least the old when the latter are at last satisfied. Yet the fact should not be overlooked that the processes set in motion in the course of satisfying these demands, assuming that they are not for wasteful purposes, tend of themselves to stimulate the formation of new capital, in the way of savings from wages, profits to employers, and the increased productivity of new enterprise.

1. Formation of Capital.

The growth of deposits in the savings offices and the amounts paid to life insurance companies in the shape of premiums on policies are the chief explicit evidences of capital formation available in Germany. As to the remainder it is necessary to rely upon semi-official estimates which are themselves subject to broad qualification.

Deposits have been accumulating in the savings offices or Spar-kassen in considerably greater volume than in 1927 or in any previous year since stabilization. The total increase during the twelve months ended October 31, 1928, was 2,101 millions compared with 1,613 millions during the previous 12 months; and during the last four months the increase has been at the average rate of 164 millions a month as compared with 105 millions during the corresponding period of 1927. The growth for the past twelve months as a whole is about double the average annual increase from 1908 to 1913. It is noteworthy in this con-

nection that at present the amounts credited as interest represent only 10 or 15 per cent of the total annual increase of savings deposits whereas in the pre-war years interest credited amounted to about 50 per cent of the total annual increment. This difference arises mainly from the fact that aggregate deposits are still only about one-third of the total in 1913.



With the exception of certain revalorized deposits, relatively small in amount, the total of about 6,500 millions shown for October 31, 1928, has practically all been accumulated since the inflation. The progressive increase in the savings deposits not only reflects a recovery of the habit of saving on the part of the people, but some increased capacity to save. As such it has an important bearing on the further formation of new capital. Yet it is not to be assumed that this rate of saving can be taken to apply proportionately over the population of Germany as a whole. A large part of the savings deposits comes from wage earners, whose position in the present economic life of Germany is relatively favorable on account of the wage increases which have been made in the last few years.

In addition to the savings deposits placed with the Sparkassen, there is an unstated volume of savings placed with the large commercial banks. Since November, 1927, the members of the Berlin Bankers' Association (Stempelvereinigung) which comprises a large proportion of the total banking strength of Germany, have been accepting savings deposits on which they pay 5 per cent compared with 4½ per cent paid by the Sparkassen. The amount of these deposits is not shown separately in the published statements of the banks and their total accordingly cannot be estimated.

Life insurance premiums, which constitute a second important class of savings, averaged about 44 million reichsmarks per month during the first ten months of 1928. The figures are based on reports of about 60 life insurance companies and are available in comparable form only since the end of 1927. The total amount of insurance in force at the end of October, 1928, was some 25 per cent higher than at the end of 1927.

Insurance in force and premiums paid (In millions of reichsmarks)	Amount of insurance in force	Premiums paid during two-month period
1927, December 31	8,910.0	74.8
1928, February 29	9,495.0	82.4
April 30	9,894.0	89.9
June 30	10,292.0	81.7
August 31	10,713.8	88.1
October 31	11,050.5	93.3

Beyond the figures for Sparkassen savings deposits and life insurance premiums there is little direct evidence upon which to predicate an estimate of capital formation in Germany. But by various statistical processes, based either on the volume of money savings or upon such evidences as are available showing the annual surplus of production over consumption, estimates have been made which shed some light on the question. The latter method has been followed by the Reichs-Kredit-Gesellschaft, which is owned indirectly by the Reich, in the useful economic review which it publishes twice a year. Certain unofficial estimates compiled in a different manner tend generally to agree with that of the Reichs-Kredit-Gesellschaft.

This estimate, which was published early in January, 1928, was described in the interim Report of the Agent General last June. It places the surplus of production in Germany for 1927 at 12,000 million reichsmarks. The calculations upon which this figure was based were prefaced with the statement that no reliable estimate of the formation of capital in Germany is yet possible but that from a knowledge of the international balance of payments and of the conditions of production and consumption, the general limits within which the surplus of production must lie can be determined. The surplus of production, in turn, after deducting the amount of capital imported (other than that used for currency cover) provides the basis for the estimate of the annual formation of capital. The underlying qualification was made, however, that the surplus of production often comprises items which cannot be converted into cash without causing a heavy fall in prices.

Taking the estimated surplus of production at 12,000 million reichsmarks and deducting imported capital, except such as was used for currency cover, the Reichs-Kredit-Gesellschaft arrived at the conclusion that net capital formation in Germany during 1927 amounted to 7,600 million reichsmarks. The detailed estimates for 1928 have not yet been published, but in its report covering the first half of 1928 the Reichs-Kredit-Gesellschaft estimated that domestic capital formation during the first half of 1928 had proceeded apparently at about the same average rate as in 1927.

2. Banking and Other Short-Term Credit.

It was inherent in the conditions of credit shortage in the first years after stabilization that the first marked growth in the volume of credit should have taken place in bankers' and other short-term

credits. It was not until the early part of 1926 that it became possible to issue long-term obligations in the domestic market, thereby relieving somewhat the pressure theretofore concentrated on the short-term market. In the meantime short-term credit has continued to rise, but its total volume has gradually assumed a more normal relation with respect to that of outstanding long-term issues.

The total credits of the six large private banks which together represent about three-quarters of the private banking strength of Germany increased about 2,000 million reichsmarks or 30 per cent during the year ended October 31, 1928. This compares with an increase of 26 per cent during the previous twelve months. Deposits increased in about the same proportion as credits during each of the two years. No doubt a substantial part of the expansion during the past two years was based upon deposits received from abroad. In default of actual figures this important factor in the banking position remains a matter of conjecture, but some indication of the volume of foreign deposits in German banks appears from the public statements made in connection with the final balance sheets for 1927, when certain banks reported that foreign deposits were between 30 and 40 per cent of their total deposits. A striking item in the bank statements is a rise in their holdings of bills and treasury notes which increased 823 millions or more than 50 per cent during the last twelve months. In part this is merely a shift from the Reichsbank to the private banks inasmuch as the Reichsbank's holdings of bills and checks declined about 450 millions during the same period.

Six private banks (in millions of reichsmarks)	Jan. 1, 1924	Dec. 31, 1926	Oct. 31, 1927	Dec. 31, 1927	Sept. 29, 1928	Oct. 31, 1928
Cash and amounts due from banks and bankers	565	1,048	1,137	1,361	1,236	1,226
Bills and treasury notes	42	1,556	1,509	1,858	2,189	2,332
Loans and advances, total	609	4,024	5,042	4,994	6,067	6,207
(a) on stock exchange securities	—	—	—	—	1,771	1,786
(b) other	—	—	—	—	4,296	4,421
"Gläubiger" — mainly time and demand deposits	1,058	5,970	6,872	7,503	8,636	8,923
Acceptance liabilities	2	316	387	384	409	399
Contingent liabilities ..	—	—	—	—	1,014	957

In the foregoing table detailed comparisons for all the items shown are not possible between the present and former years because of a change in the system of reporting which went into effect on March 31, 1928. A more comprehensive change in the method of reporting figures for State and provincial banks and the Giro-Zentralen went into effect at the same time, and this makes it impossible to give comparative figures for periods earlier than those shown.

Since last March there has been further expansion among the State and provincial banks but at a rate considerably less than with the private banks. From the end of March to the end of October, 1928, the total credits of 21 State and provincial banks increased 69 millions or a little more than 3 per cent as compared with an increase of about 13 per cent for the six private banks during the same period. The deposits of the State banks rose by about 11 per cent.

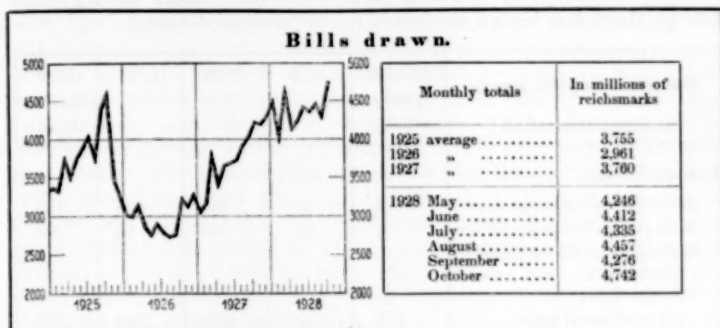
Twenty-one State and provincial banks including See-handlung (In millions of reichsmarks)	March 31, 1928	June 30, 1928	July 31, 1928	Aug. 31, 1928	Sept. 29, 1928	Oct. 31, 1928
Cash and amounts due from banks and bankers	374	563	580	572	557	616
Bills and treasury notes	467	442	424	465	413	406
Loans and advances, total	1,631	1,704	1,676	1,686	1,732	1,761
(a) on stock exchange securities	256	258	260	266	275	277
(b) other	1,375	1,446	1,416	1,420	1,457	1,484
"Gläubiger" — mainly time and demand deposits	2,538	2,735	2,719	2,772	2,762	2,831

The Giro-Zentralen, the central institutions through which the various savings offices and communal banks are interrelated, have continued to expand their credits at a comparatively rapid rate. The total credits of 17 of these institutions increased 15 per cent between March 31st and October 31st of this year. These credits were granted largely out of the proceeds of long-term loans issued by the Giro-Zentralen, in some cases abroad.

Seventeen Giro-Zentralen (In millions of reichsmarks)	March 31, 1928	June 30, 1928	July 31, 1928	Aug. 31, 1928	Sept. 29, 1928	Oct. 31, 1928
Cash and amounts due from banks and bankers	469	521	400	418	373	417
Bills and treasury notes	168	184	154	164	157	145
Loans and advances, total	832	939	968	970	1,020	1,004
(a) on stock exchange securities	70	85	84	82	86	79
(b) other	762	854	884	888	934	925
"Gläubiger" — mainly time and demand deposits ..	1,630	1,814	1,736	1,770	1,759	1,769

The volume of bills drawn during October, as reflected in the returns of the stamp tax, was higher than for any previous month. In its main outline the changes in the volume of bills drawn coincides with changes in the volume of production and trade. The recent increase does not appear to be wholly attribut-

able to that cause, but probably reflects the better market for bills which now prevails and also some increased inclination to rely on bill credit for transactions formerly done on a cash basis or carried in the form of banking credits.



The open discount market has developed somewhat greater vitality in recent months. Aside from prime bankers' acceptances, which have formed the principal offerings on the market heretofore, Reich Treasury bills have also been offered in greater volume. Small quantities of such bills began to appear on the market last February, the first in recent years. At the end of November the total amount outstanding was nearly 400 million reichsmarks, the maximum permitted under the present law. Up to this time very few have been offered to the Reichsbank from the market, either for rediscount or as collateral for advances. The largest amount so held up to the present was on December 7, 1928, when the total stood at 57 millions.

3. *New Capital Issues and the Security Markets.*

In the last four years the German domestic market has absorbed about 14,000 millions of new capital issues. During 1925, the first year after the Experts' Plan went into operation, the market was very narrow and practically no new securities were offered except for moderate amounts of securities issued by the real estate credit institutions and various issues of shares. But since the beginning of 1926 new issues in considerable variety have been offered in the market at the rate of about 4,300 millions each year.

The domestic demand for long-term issues has been subject to periodic interruptions. At almost all times the volume of loans overhanging the market has been greater than the market could absorb. Accordingly, at those times and seasons when funds have appeared in the market, offerings have been made in undue amount and frequency, with the result that the market has been more or less promptly overtaxed. For example, the Reich loan offered in February, 1927, in the nominal amount of 500 million reichsmarks, proved beyond the strength of the market, and it was not until a year later that new accumulations of investment funds permitted a resumption of public offerings in volume. In order to avoid a

second exhaustion of the market, the bankers and the financial authorities of the Reich and Prussia discouraged too frequent offerings, but insistent demands from the States and communes and the requirements of agriculture made their efforts only partly successful. Recently, in common with somewhat easier money conditions, there has been a moderate resumption of demand.

Domestic capital issues (In millions of reichsmarks)	1907-1913 yearly average	1925	1926	1927	1928 Jan. 1 to Oct. 31
German bonds:					
Reich, States, communes, etc.	1,172	15	654	698	440
Associations under public law	4	22	366	16	224
Real estate credit institutions, Giroverbände and related institutions:					
(a) communal loans	116	38	465	349	432
(b) mortgage bonds	788	840	1,628	1,597	1,258
Private concerns	400	79	322	194	208
Total bonds	2,480	994	3,435	2,854	2,562
German shares	740	661	898	1,373	1,057
Total German securities . .	3,220	1,655	4,333	4,227	3,619
Foreign securities	472	—	—	58	—
Grand totals	3,692	1,655	4,333	4,285	3,619

The foregoing table made up from figures published by the Reich Statistical Office reports the volume of bonds and similar obligations at the nominal amount of the new issues, but gives the volume of new shares at the paid-in amount, omitting new shares issued in connection with the consolidation of enterprises.

Mortgage bonds issued by real estate credit institutions have continued as in previous years to form the largest single item in the list of new issues. These obligations, known as Pfandbriefe, have composed more than one-third of the total new issues each year since stabilization. They are secured by mortgages on real estate, including agricultural land, and are sold from time to time and at varying rates according to the market. Their issue is far more constant than in the case of other new securities. Issues during 1928 have almost all carried 8 per cent interest on the nominal amount, but they have always been offered below par and so have yielded a return to the investor considerably above that rate.

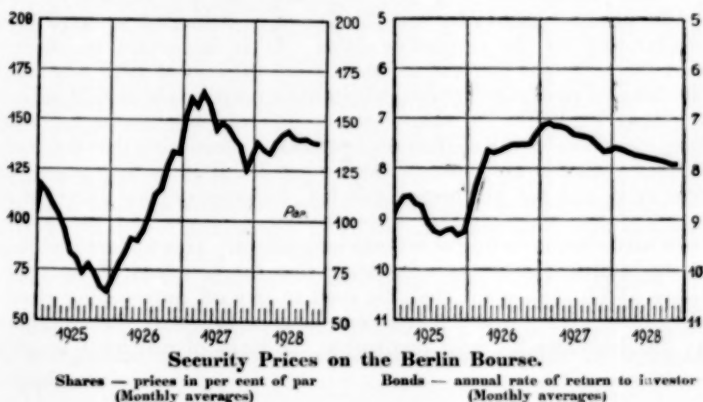
One of the main reasons for high interest rates on new issues as well as for the frequent periods of inactivity which have prevailed on the domestic market is the pressure to which it has been continually subjected from the Reich, the States and the communes. The Reich loan issued in February, 1927, has not yet been fully absorbed and has required special market support in order to maintain its price. The strained cash position of the Reich Treasury, which has obliged it to issue a large volume of short-term obligations, as already mentioned, has also exerted an indirect influence over the

long-term market. Moreover, since the passage of the war damages liquidation law of March 30, 1928, about 350 millions of so-called registered debt certificates of the Reich have been distributed to claimants who have offered a considerable volume of them to the banks or for sale on the various stock exchanges. These, together with the various classes of loan liquidation debt, revalorizing the paper mark debts of the Reich, have placed an exceptionally large burden upon the market. Furthermore, offerings of the States and communes which might otherwise have been placed abroad, have in a measure been shifted to the domestic market because of the obstacles in the way of foreign issues to which reference has already been made. The new capital issues by the States, provinces and communes during the first ten months of 1928, aggregate about 840 million reichsmarks compared with about 540 millions during the corresponding period of 1927. This amount was about evenly divided between sales to the public through the medium of bankers' syndicates and offerings through real estate credit institutions, Giroverbände and related institutions.

The high yields carried by domestic issues have attracted many foreign purchasers to all branches of the market. The extent of such participations cannot be determined, but it appears to have been an important item in the balance of payments, supplementing direct borrowing at long- and short-term abroad.

The markets for outstanding securities have continued quiet throughout the year and the volume of trading has apparently been small. Share prices recovered somewhat in the first half of 1928, and since then they have changed on the whole very little. During the first ten months of 1928, the average return on shares listed on the Berlin Bourse was 4.88 per cent as compared with 3.92 per cent during the full year 1927, owing chiefly to an increase in dividends. The latter largely related to business done in 1927.

Bond prices on the Berlin Bourse declined gradually from the early part of 1927 until November, 1928. But in recent weeks they have shown considerable resistance, partly as a result of the easier money conditions recently prevailing. The average yield on outstanding bonds in November, 1928, was 7.9 per cent as compared with 7.65 per cent a year earlier.



4. Agricultural Credit.

The difficult conditions facing German agriculture, which were outlined at length in the interim Report for 1928, though still far from being relieved, have somewhat clarified since that time.

According to the results of a recent inquiry made by the Preussenkasse, the central credit bank for the co-operatives, the average debt of some 4,000 estates lying east of the Elbe amounts to 424.6 reichsmarks a hectare and the average interest burden to 38.6 reichsmarks a hectare. Apparently it is not the size of the average indebtedness which presents difficulties so much as the excessive debt which certain of the estates have incurred. While farms favorably placed and ably administered have succeeded in reducing debt in the past year, others have become so highly indebted that in some cases the total debt exceeds the capital value of the property. It is the special problem which such cases present that gives agricultural credit its singularly difficult aspect. In certain districts the problem cannot be solved by placing the over-encumbered estates on the market because buyers are lacking; in other districts, where land can be sold even at favorable rates, the proceeds would not be enough to satisfy the outstanding claims. Otherwise, taken as a whole and without considering special cases, there seems to have been some progress in recent months in consolidating agricultural indebtedness.

Agricultural credit (In millions of reichsmarks)	Dec. 31, 1925	Dec. 31, 1926	Dec. 31, 1927	June 30, 1928	Sept. 30, 1928
Mortgage credits	1,011	2,049	2,816	3,262	3,438
Intermediate credits . . .	26	71	252	294	304
Short-term credits	2,158	1,893	2,082	2,217	2,146
Totals	3,195	4,013	5,150	5,773	5,888

The foregoing table reproduces figures compiled by the Institut für Konjunkturforschung and represents not the amount of new credit granted each year but the amounts estimated to have been outstanding on the respective dates. It is important to observe that the principal increase in credit since the end of 1927 has taken the form of mortgage credits, which have risen by about 620 million reichsmarks, while the short-term credits and intermediate credits have increased by 116 million reichsmarks. Considering that the latest figures available are those of September 30, 1928, a time when the new crop had not yet been marketed, the unimportant increase in short credits suggests that some further progress had previously been made in converting short into long credit. It is understood that credit institutions are now insisting that the proceeds of mortgage loans which they grant shall be used to pay off outstanding short-term debt. This practice has been largely followed, for example, by the Rentenbank Credit Institution, the loans of which are largely

made out of funds derived from abroad and represent a substantial portion of the total mortgage credits granted.

Latterly the savings offices have begun to resume their former importance as a source of mortgage credits for agriculture. At the end of 1925 the savings offices held only about 7 per cent of the total amount of long-term agricultural credits, whereas in August, 1928, their holdings had increased to about 18 per cent of the total.

Interest rates on agricultural credits remain high. On new mortgage credits the rates paid by the farmer stand at present at about $9\frac{1}{2}$ per cent as compared with about half that rate before the war.

While a reduction in the cost of credit would bring considerable relief to agriculture, the difficulties which German agrarians face are by no means limited to questions of credit. To some extent they are the reflections of a change in agricultural conditions throughout the world, to which German agriculture has only begun to adapt itself. It is noteworthy that more and more attention is being paid to the means of effecting these readjustments. In particular, preliminary investigations have been made looking toward the improvement of marketing systems, livestock raising, dairying and so on. If these result in greater farm efficiency and in cheaper and better production and distribution, they will bring measurable relief on the score of agricultural credit and will be advantageous also in diminishing imports of necessary foodstuffs.

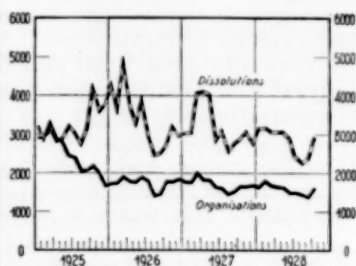
Other aspects of the present agricultural situation are discussed in the chapters on foreign trade and German business conditions.

5. *Business Difficulties.*

The number of business failures in Germany during the past year shows a nominal increase over the average prevailing in 1927. This is due in part to a change in the method of dealing with concerns in difficulties which was instituted on October 1, 1927. Under the former system an insolvent person or concern might be placed under official supervision in order to ward off bankruptcy. This supervision, which could be instituted by the court without the consent of the creditors, was designed to protect debtors who could not keep their engagements because of difficulties arising out of the war, and was continued in the post-war period. The new procedure recognizes more fully the claims of creditors. In accordance with it, the debtor seeking to avoid bankruptcy must put forward definite compromise proposals securing to the creditors at least 30 per cent of the claims and the compromise to be effective must be agreeable to the largest claimants. The effect of the change has been to cause some increase in the number of business failures, though probably the change in procedure does not fully account for the increase over a year ago.

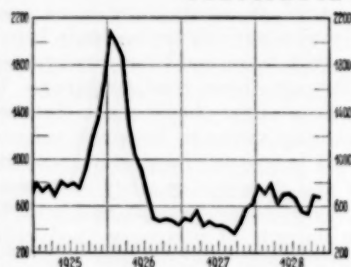
The number of concerns voluntarily dissolving continues to exceed by a considerable margin the number of new concerns being formed. This carries further the tendency which has been marked since stabilization toward a reduction in the number of business organizations.

Organization and dissolution of enterprises.



Number of enterprises organized and dissolved	Dissolutions	Organizations
1925 average	3,257	2,458
1926 "	3,407	1,734
1927 "	3,182	1,700
1928 May	3,059	1,628
June	2,896	1,590
July	2,432	1,503
August	2,250	1,453
September ..	2,375	1,381
October ...	2,934	1,608

Concerns in difficulties.

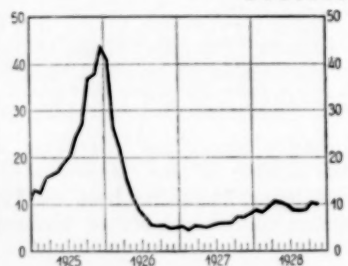


Number of failures and cases of compromise	Failures	Cases of compromise ¹
1925 average	932	492
1926 "	1,023	653
1927 "	472	119
1928 June	702	293
July	655	342
August	552	300
September ..	530	257
October	685	264
November ..	674	282

¹ Figures for 1925, 1926 and 10 months of 1927 represent cases of supervision.

The nominal amount of protested bills has been somewhat higher during the last twelve months than during the period immediately preceding. The figures which are given in the following diagram and table were compiled and published by the Institut für Konjunkturforschung on the basis of private reports received from various parts of Germany. The amounts given have no absolute significance because they take into account only a minor part of the total protested bills in Germany; but the tendency illustrated may be assumed to represent a fair sampling.

Protested bills.



Monthly totals	Millions of reichsmarks
1925 average	23.6
1926 "	13.2
1927 "	6.0
1928 June	9.8
July	8.8
August	8.7
September	8.8
October	10.2
November	10.0

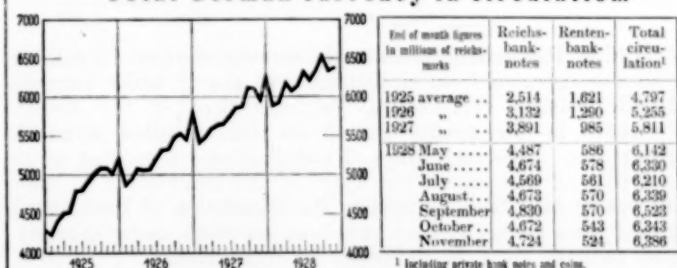
c. The German Currency.

In the preceding pages various instances of the return of normal influences have been observed with respect to credit conditions in general. It remains to take note briefly of the changes which have occurred in the particular field of the currency. These changes have all been in the direction of bringing the currency into normal relations with the Reichsbank, on the one hand, and with the needs of the German public, on the other. The accomplishment of these objects presupposed the maintenance of currency stability, which has continued to satisfy all practical requirements.

At the beginning of 1924 when the Experts were preparing their Report, the Reichsbank was only beginning to regain its normal position toward the currency which had been completely lost during the inflation. The gold value of the currency then outstanding was about 3,250 millions, an amount quite insufficient to meet ordinary requirements. The Reichsbank's own notes were still denominated in paper marks which had the value of a million millions of paper marks to one gold mark; and, notwithstanding the fantastic nominal total, its equivalent in terms of gold was less than 500 millions, or less than one-sixth of the aggregate circulation. The principal element of the German currency was composed of the new notes of the Rentenbank in the amount of 1,400 millions. The rest was made up of emergency currency issued by the railways and industries, gold loan certificates of various sorts which circulated as currency, and a moderate amount of gold-secured notes issued by individual banks.

The problem of dealing with these various forms of money involved replacing them with a unified and fully responsive currency, while at the same time maintaining essential stability. The new notes of the Reichsbank, issued in the form of reichsmarks after the reconstitution of the bank on October 11, 1924, served this function. As far as the minor issues were concerned, they disappeared with considerable promptness as the Reichsbank, consistently with its improved relation to the credit market in general, gained control over the circulation. The Rentenbank notes remained for some time as an important though diminishing element in the total German circulation, but with the reduction of Rentenbank currency to its present moderate proportions the notes of the Reichsbank have assumed their normal position as the principal element in the German circulation.

Total German currency in circulation.



It will be seen from the foregoing diagram that except for the usual seasonal fluctuations the year-to-year increase in the volume of the currency, in common with the general volume of credit, has been continuous and fairly regular since stabilization. The average increase from 1925 to 1926, for example, was 440 millions; from 1926 to 1927, a period of rapid business and credit expansion, the increase was 540 millions. During the first half of 1928 the year-to-year increase reverted to about 440 millions, whereas during the past three months the increase over the corresponding period of 1927 has been about 310 millions. This narrowing of the margin in recent months reflects precisely the same tendencies as have been observed elsewhere; the expansion at the end of 1927 has been counteracted and more normal forces have reasserted themselves.

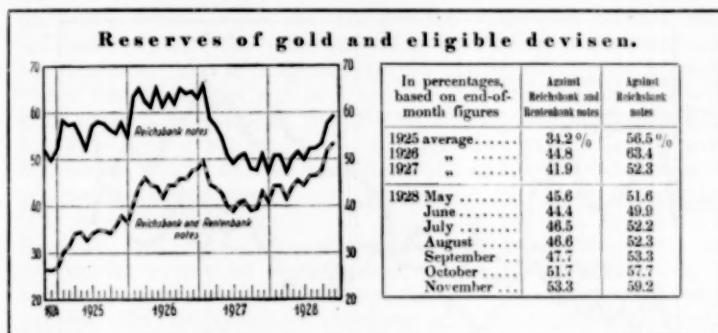
As in previous years, the Reichsbank notes have furnished the principal element of increase in the currency. Indeed, the increase in Reichsbank notes has been somewhat larger than the increase in the circulation as a whole. The progressive retirement of Rentenbank notes has been compensated by an increase in the circulation of the Reichsbank and also by an increase in the circulation of coins particularly of the 5-reichsmark denomination. At the end of November, 1928, Reichsbank notes composed about 74 per cent of the total circulation, as compared with about 70 per cent a year ago, and about 62 per cent two years ago.

The circulation of Rentenbank notes on November 30, 1928, amounted to 524 millions, representing only 8 per cent of the total circulation as against somewhat more than 42 per cent four years ago. These notes have never had any gold backing of their own. But inasmuch as the Reichsbank has been prepared to accept them and pay them out, they have constituted a contingent charge against the Reichsbank's gold and devisa reserves. Their reduction to the present moderate total practically eliminates a factor of weakness in the German currency position. It will be recalled, in this connection, that a law providing for the gradual liquidation of the Rentenbank notes was passed at the same time with the other laws making the Experts' Plan effective. Up to November 30, 1928, Rentenbank notes have been retired in conformity with its provisions in the following amounts and from the following sources:

	(In millions)
Interest on the general mortgage on agricultural land	275
Payments by the Reich.....	240
Share of the Reich in Reichsbank earnings.....	78
Repayments of agricultural bills.....	880
Total....	1,473

In addition, Rentenbank notes to the amount of about 70 millions have been withdrawn from circulation and placed under earmark at the Reichsbank, representing the equivalent of the Reichsbank's share in the profits earned on the so-called economic credits granted in the early days of stabilization. According to the original plan of retirement, the share of the Reichsbank in these profits was to have been applied to the liquidation of Rentenbank notes, and notes to this amount have been set aside, under earmark, in order to make good the deficiency on this account.

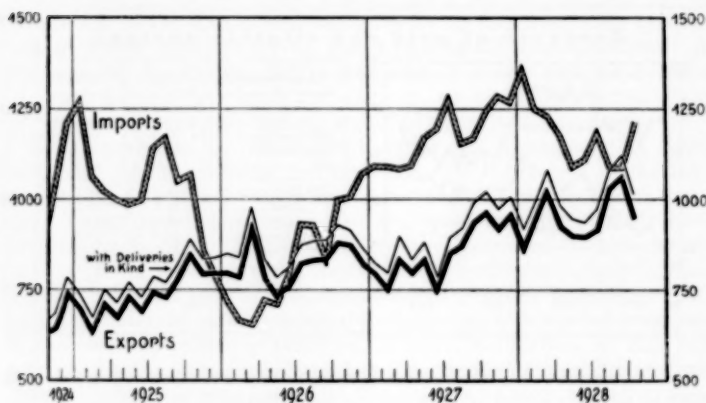
The Reichsbank is required by law to maintain reserves against its own notes but not against Rentenbank notes. These reserves must amount to a minimum of 40 per cent of gold and eligible devisen, with the additional proviso that the devisen counted as reserve shall never exceed one-third of the gold. The Reichsbank's reserves since the time of the bank's reconstitution have consistently stood at or above the legal minimum as far as its own notes are concerned. But the gradual retirement of Rentenbank notes and their partial replacement by Reichsbank notes have placed a burden upon the reserves far heavier than the increase in the general circulation of the currency itself would have required. Further, as has already been indicated, the notes of the Rentenbank have constituted a contingent liability which the Reichsbank has had to recognize in accumulating adequate gold reserves. Accordingly, it is important to note in the following diagram and table not simply the course of the Reichsbank's reserves in relation to its own circulation, but in relation to the Rentenbank's circulation in addition.



On November 30, 1928, the Reichsbank's reserves of gold and eligible devisen stood in relation to the combined circulation of the Reichsbank and Rentenbank at the highest point yet reached.

VII. Germany's Foreign Trade.

Substantial progress has been made in the past year in bringing Germany's foreign trade nearer to a position of stability and balance. The margin by which imports have exceeded exports has gradually narrowed and in September, 1928, the two were approximately equal. To some extent this result was a reflection of the change in industrial activity, which has brought the demands of German industry for foreign raw materials down to the level prevailing in the first half of 1927, when the credit and industrial expansion of that year had not yet reached its maximum. But of greater importance in the long run was the further growth of exports, which have reached the largest dimensions since stabilization.



German exports and imports, by months.

(In millions of reichsmarks)

The sudden increase in imports and the decrease in exports for the month of October, 1928, as shown in the foregoing diagram, are due to the changes which first became effective at that time in the reporting procedure of the Reich Statistical Office. These will be explained in a later paragraph and may be overlooked at this point.

German foreign trade in the last four years has had two outstanding characteristics: broad fluctuations in the volume of imports and steady growth in the volume of exports. Up to very recently fluctuations in the volume of imports have largely determined whether the trade balance has been favorable or not. These

fluctuations find their cause largely in the dependence of German industry upon foreign sources for essential raw materials. Since changes in the activity of industry are promptly reflected in the demand for such materials, fluctuations month by month in the volume of imported raw materials, and generally speaking fluctuations also in the total volume of imports, provide one of the fairest existing indicators of the activity of German industry as a whole. The volume of exports, on the other hand, has shown no such broad fluctuations; aside from variations due to the seasons, the volume of exports has increased with remarkable steadiness during each of the past four years.

Bearing in mind these two characteristic features of German foreign trade, it is interesting to contrast the two periods since stabilization when German exports and imports have come into effective equilibrium. The first was in the autumn of 1925, at the beginning of the post-stabilization depression. The decline in imports which was then in process lasted until the early spring of 1926; within about six months the volume of imports was reduced by half. The point at which the falling line of imports, as illustrated in the diagram printed above, cut across a fairly stable line of exports was at a level of about 800 millions. Thereafter exports and imports were nearly in balance for about a year, but then equilibrium was lost for nearly two years, that is, until September, 1928. At that time the credit and industrial expansion of the preceding winter had given way to a less intense but still high business activity. A decline in imports, begun early in 1928, had apparently reached a level conforming with the substantial volume of business, and there remained. Exports, on the other hand, continuing the movement long under way which perhaps the diminution of business activity at home somewhat accelerated rose to about 1,100 millions a month, practically balancing imports.

The difference of about 300 million reichsmarks in the levels at which equilibrium was attained in the two periods is a matter of primary importance, not only because it illustrates the steady growth of exports, but also because of its direct bearing upon Germany's need for foreign credit. Heretofore, there has been a wide margin between the volume of exports and a volume of imports consistent with the requirements of active business. It is not out of the question that this margin will widen again from time to time as internal activity rises or the export trade falls; but the progress heretofore made in increasing exports gives ground for supposing that the duration of adverse balances will diminish and that the dependence on foreign funds for the purchase of foreign goods and materials will be measurably relieved. In any case, the narrowing in recent months of the margin between exports and imports has had a marked effect on Germany's position in the international credit market, for a considerable part of her recent foreign borrowings has been brought in not in the form of goods only but in gold. This development has already been fully discussed in its broader relations in the chapter on credit.

German foreign trade, by months (In millions of reichsmarks)	Imports	Exports		Excess of imports	
		without deliveries in kind	with deliveries in kind	without deliveries in kind	with deliveries in kind
1925 average	1,030	733	776	297	254
1926 average	833	815	868	18	35 ¹
1927 average	1,186	852	900	334	286
1927 November	1,285	913	971	372	314
December	1,266	954	1,004	312	262
1928 January	1,357	862	915	495	442
February	1,247	942	994	305	253
March	1,229	1,021	1,079	208	150
April	1,175	920	980	255	195
May	1,086	894	943	192	143
June	1,108	890	934	218	174
July	1,183	914	971	269	212
August	1,083	1,026	1,079	57	4
September	1,088	1,059	1,121	29	33 ¹
October	1,213	950	1,010	263	203
¹ Excess of exports.					

In the foregoing table the value of exports is given both with and without the Statistical Office's figures for deliveries in kind on reparation account. The inclusion or exclusion of these figures naturally affects the totals given for exports, and influences accordingly the size of the merchandise trade balance. Since the narrowing of the margin between exports and imports did not make much progress until the summer months of 1928, the excess of imports for the year ended October 31, 1928, though smaller than for the preceding year, was nevertheless large. The net excess of imports, without taking deliveries in kind into account, amounted to 2,976 million reichsmarks as compared with 3,593 millions for the preceding year. If deliveries in kind are taken into account, the deficit in the trade balance for the twelve months was 2,319 millions, as compared with 3,037 millions a year ago.

The figures given in the table, as well as those used elsewhere in this chapter unless otherwise indicated, are those published by the Reich Statistical Office and periodically revised by it. It should be remembered that in the opinion of the Statistical Office both the original figures and the periodically revised figures are open to question on the ground that the method of reporting which was in effect up to October 1, 1928, has resulted in an over-statement of import values and an under-statement of export values. The Statistical Office holds accordingly that import values should be reduced by 5 per cent for the years 1924-1925 and by 3 per cent

for the years 1926, 1927 and 1928; and that the value of exports should be increased by $1\frac{1}{2}$ per cent for the whole period. The application of these percentages to the values given for imports and for exports (without deliveries in kind) gives the following results:

	Original figure	Corrected figure
Twelve months ended October 31, 1925, Import balance	4,396	3,617
Twelve months ended October 31, 1926, Export balance	168	633
Twelve months ended October 31, 1927, Import balance	3,593	3,033
Twelve months ended October 31, 1928, Import balance	2,976	2,427
Total for 4 years, Net import balance..	10,797	8,444

The corrections thus made reduce the net import balance of these four years, as officially reported, by the conjectural amount of 2,353 million reichsmarks. A law enacted by the Reichstag last spring providing for certain reforms in reporting methods was intended to make such corrections unnecessary in future. The change took effect on October 1, 1928, and the figures used in this Report for October were compiled under the new system. But the immediate effect was still further to over-state imports and to under-state exports. In the opinion of the Reich Statistical Office itself, the October, 1928, figures are not only out of line with the facts, but they are not comparable with the figures for any previous period.

Heretofore in order to attain promptness in issuing reports, the Statistical Office has followed the practice of omitting import returns applicable to certain days of a given month and of including them in the record for the following month. Moreover, import values in large measure have been estimated, and difficulties have been encountered in making proper allowance for variations in quality. From now on it is intended that the import figures shall relate specifically to the imports actually entered during the calendar month concerned, and that they shall be compiled on the basis of importers' declarations of value. Since the month of October was the transitional month from the old practice to the new, the reported import values not only apply to the full month of October, but cover also the imports for certain days in September.

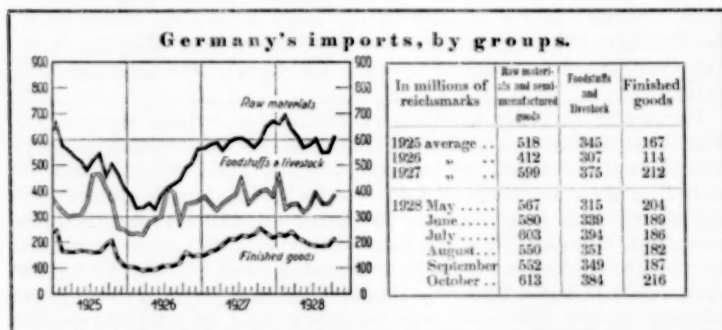
The new procedure also provides for various changes in the handling of figures for exports. Down to October 1st, the notification of exports was made at the time commodities crossed the customs frontier. Accordingly, as in the case of the important free port of Hamburg, the notification was made at the time goods entered the free port, a date often several days before the departure of the ship conveying the goods abroad. The point of notification has now been made the maritime limit and it is not until about fifteen days after the departure of the vessel that the notifications reach the Statistical Office for tabulation. The Statistical Office explained in connection with its October foreign trade report that a great part of the commodities leaving Hamburg in October could not be recorded

in that month, with corresponding reductions in the nominal amount of exports.

In this chapter, the Statistical Office's published figures for exports and imports in October are used without alteration, but it is not possible to base any conclusions on them as they stand.

a. Analysis of Imports.

About five-sixths of Germany's imports are made up of raw materials and foodstuffs, and only about one-sixth is composed of finished articles. Of these three groups of imports the largest is that of raw materials, for which German industry is so largely dependent upon foreign sources of supply. German physical and chemical science has devoted much attention to converting on an industrial basis domestic raw materials into products which would otherwise have to be obtained from abroad, with the purpose of reducing the extent of this dependence. But even with success in extracting nitrogen from the air, which has had the effect of making Germany an exporter rather than an importer of nitrates, and in producing on a commercial scale motor spirit and other petroleum derivatives from coal and lignite, Germany must still look to foreign countries for a large proportion of the essential materials of industry.



As has already been seen, the volume of raw material imports rises and falls consistently with the increase or the decrease of German industrial activity. In February, 1928, the value of raw materials imported was larger than in any other month since stabilization, reflecting the high degree of activity which then reached maximum in certain industries. Thereafter, imports of raw materials declined somewhat until the early summer, when they reached a level of about 550 million reichsmarks a month. They have remained up to the present fairly consistently at that level, which is about the same as that maintained during the first nine months of 1927. The total importation of raw materials and semi-manufactured goods for the twelve months ended October 31, 1928, amounted to 7,389 million reichsmarks as against 6,895 million reichsmarks during the preceding twelve months.

The volume of foodstuffs, which form the second group in size among the imports, has maintained a fairly even average since the middle of 1926. Germany is ordinarily dependent upon foreign sources for food, and two inferior harvests in 1926 and 1927 accentuated this dependence. The relatively abundant crop of 1928 may be expected to reduce the value of imported foodstuffs during the next twelve months not only because of smaller requirements in terms of quantity but because of somewhat lower prices for such products in the world markets. Some slight reductions in the value of such imports seem already to have taken place. But no increase in German agricultural production can reasonably be expected to take care of the domestic needs for wheat and certain other basic foodstuffs. Relief to the trade balance is more likely to come from another direction. In 1927, the imports of milk and milk products, eggs and vegetables amounted to about 1,000 million reichsmarks and it appears that in 1928 this total will be equaled if not exceeded. Some progress has already been made by way of intensive investigation and otherwise toward stimulating production in these branches of agriculture, but it is too early to find the effects reflected in the foreign trade returns. The opportunity, nevertheless, is very great, and if the approach which has been made to the problem is actively followed up, the result should be a material improvement in the domestic production in these lines, with a consequent relief to the import demand. In the twelve months ended October 31, 1928, the total imports of foodstuffs and livestock amounted to 4,409 million reichsmarks, as against 4,425 millions in the preceding twelve months.

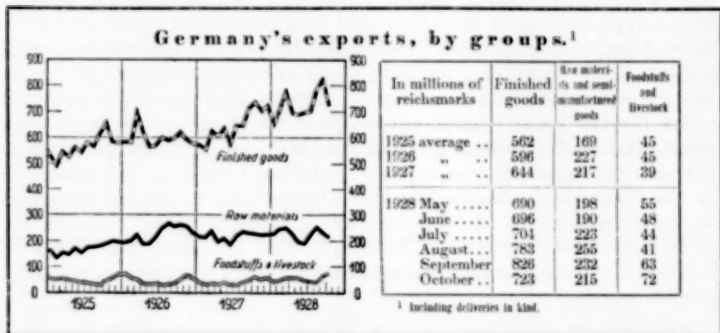
The import of finished goods, though the smallest of the three groups, rose to a high level during the winter of 1927-1928. Since then there has been a moderate decrease. For the twelve months ended October 31, 1928, imports of finished goods amounted to 2,522 million reichsmarks, as against 2,314 millions in the preceding twelve months.

b. Analysis of Exports.

Just as raw materials make up the largest group of Germany's imports, finished goods compose by far the largest part of her exports. The growth in this group of exports accounts almost in full for the increase in Germany's export trade during the past three years. From the level of about 550 millions a month in 1925 the export of finished goods has risen, for the time being at least, to over 800 millions in September, 1928. The major part of this increase has taken place since the beginning of 1927. Except for such benefit as the trade balance may derive from further scientific exploration in the field of raw material supplies and such benefits as may arise from readjustments in agriculture, Germany must look to her exports of finished goods for a favorable position in foreign trade. In some sense the recent increase, which has been particularly marked since the early summer of 1928, is attributable to a seasonal rise and to diminished demands from the domestic market. But, according to the Institut für Konjunkturforschung, there has been no consistent decline of prices for exported finished goods such as would be ex-

pected from a period of forced sale. On the contrary, it appears that there has been a certain preference on the part of foreign buyers for higher-priced goods. Consequently, the Institut concludes that the increase in exports is not solely the result of a moderation in the demands from the domestic market, but an expression of the continued expansion, structurally speaking, of German export trade. Numerous branches of the export trade have shared in the increase, among them the iron goods, machinery, electrical and textile trades. Altogether, for the twelve months ended October 31, 1928, the exports of finished goods amounted to 8,671 million reichsmarks as against 7,465 million reichsmarks in the previous year.

In the following diagram and table the figures used are those of the Reich Statistical Office, which include deliveries in kind on reparation account.



The volume of raw material exports has varied little in the last two years. The principal individual items are coal, coke and lignite. During 1927 exports of coal, coke and lignite amounted to nearly 900 million reichsmarks and chemical products to about 400 million reichsmarks. In 1928 it appears that the exports of coal have somewhat diminished and the exports of chemical products somewhat increased. In the twelve months ended October 31, 1928, total raw material exports amounted to 2,710 million reichsmarks as against 2,646 million reichsmarks in the previous year.

Exports of foodstuffs and livestock are not an important group in Germany's export trade. In the twelve months ended October 31, 1928, total exports of this group amounted to 620 million reichsmarks as against 486 million reichsmarks in the preceding year.

Deliveries in kind on reparation account as reported by the Reich Statistical Office are included in the foregoing figures. But it should be observed that the calculations of the Statistical Office are based upon the physical movement of goods within the periods indicated, whereas the figures for deliveries in kind taken from the books of the Agent General, as given in a previous chapter, relate to payments as and when effected on reparation account. Payments may or may not be timed to coincide with the movement of goods, and sometimes cover services as well as material exports. Consequently there is a considerable variation between the figures of the Statistical Office and the figures from the Agent General's books. Nevertheless it is

interesting to observe the variety of goods exported, as reported by the Statistical Office, and their relative importance. Coal, it will be seen from the following table, is the largest single item, with nitrates and other chemicals, machinery and other iron goods, paper and so on the principal other categories.

Deliveries in kind — Statistical Office figures (In millions of reichsmarks)	Coal	Sul- phate of am- monia	Ma- chin- ery	Iron goods	Chem- ical pro- ducts, paints	Rail- way cars	Paper and paper good-	Mis- cella- neous	Total
1925 average	25.2	2.9	1.8	2.9	1.9	0.7	0.1	7.8	43.3
1926 average	25.4	3.6	3.5	3.3	2.0	1.1	1.7	12.0	52.6
1927 average	22.1	3.1	3.1	3.0	1.9	1.6	1.4	11.9	48.1
1927 November	24.6	1.3	2.6	4.5	2.1	2.2	1.7	18.9	57.9
December	21.8	1.4	4.1	4.4	1.8	1.2	1.3	14.2	50.2
1928 January	28.1	2.0	3.3	2.1	2.7	0.8	1.5	13.0	53.5
February	28.7	2.7	2.8	1.7	2.9	0.9	1.6	11.1	52.4
March	28.8	2.8	2.5	2.3	2.8	1.1	1.7	15.9	57.9
April	31.5	1.1	2.2	2.5	3.6	0.4	1.7	16.4	59.4
May	24.8	3.7	3.0	2.5	3.1	0.2	2.2	10.0	49.5
June	21.1	0.1	3.1	1.2	2.6	0.1	1.3	14.1	43.6
July	30.8	5.3	2.2	3.7	2.0	0.5	1.4	11.1	57.0
August	25.7	7.6	2.3	2.1	3.6	1.4	1.8	9.2	53.7
September	26.4	5.6	4.3	3.7	4.3	0.9	2.1	14.4	61.7
October	27.9	6.9	5.8	4.7	2.6	0.3	2.4	9.6	60.2
Totals, Nov. 1927 to Oct. 1928	320.2	40.5	38.2	35.4	34.1	10.0	20.7	157.9	657.0

c. Direction of German Foreign Trade.

The direction of German foreign trade, both as to the destination of exports and the source of imports, shows some noteworthy changes since before the war. In part these are owing to alterations in political frontiers, the creation of new nations as well as the restriction of Germany's own territory. In part also the changed direction indicates the acquisition of new markets and the loss or impairment of old ones.

On the export side of the account, Great Britain remains as before the war the country to which most German goods are consigned, yet the proportion of the total exports is somewhat diminished. The Netherlands and the Scandinavian countries, on the other hand, have much increased their receipts from Germany. France takes less. The succession States to Austria-Hungary have become large markets for German goods, but their totals cannot be compared for geographical reasons with the pre-war total for Austria-Hungary. Figures for pre-war Russia, a large customer, also cannot be compared with those for Soviet Russia, trade with which has latterly been increasing. Taken as a whole, Europe receives slightly less, proportionately, of German exports than before the war; yet

it is to be observed that the proportion has tended in the last few years to revert to the pre-war figure of 75 per cent. To an undefinable extent, the preponderant place of Europe among Germany's customers is due to the fact that some of the receiving countries act as middlemen in the further distribution of German exports. Nevertheless, after making all necessary allowances on that score, it is noteworthy that Germany's chief markets are among her European neighbors.

The following table gives the Reich Statistical Office's figures for German exports according to destination. Only those countries are designated which have received during either of the past two years or in 1913 more than 500 millions of German exports. No allowance has been made for changes in the price level. Deliveries in kind on reparation account are included in the figures, wherever they have been received.

Direction of German exports (including deliveries in kind)	1913		1926-27		1927-28	
	January 1 to December 31		October 1 to September 30		October 1 to September 30	
	(In millions of marks)	(Per cent of total)	(In millions of reichs- marks)	(Per cent of total)	(In millions of reichs- marks)	(Per cent of total)
Great Britain	1,438	14.2	1,187	11.3	1,212	10.1
Netherlands	694	6.9	1,127	10.8	1,171	9.7
Sweden, Norway, Denmark	676	6.7	929	8.9	1,049	8.7
France	790	7.8	565	5.4	662	5.5
Switzerland	536	5.3	461	4.4	559	4.7
Italy	395	3.9	442	4.2	516	4.3
Belgium	551	5.5	377	3.6	387	3.2
Czechoslovakia	—	—	475	4.5	631	5.3
Poland and Danzig	—	—	383	3.7	512	4.3
Austria-Hungary ...	1,105	11.0	—	—	—	—
Russia	880	8.7	—	—	—	—
Other European coun- tries	516	5.1	1,761	16.8	2,220	18.5
Totals for Europe	7,581	75.1	7,707	73.6	8,919	74.3
United States	714	7.1	746	7.1	824	6.9
Other non-European countries	1,802	17.8	2,022	19.3	2,267	18.8
Totals for non- European countries	2,516	24.9	2,768	26.4	3,091	25.7
Grand totals...	10,097	100.0	10,475	100.0	12,010	100.0

Whereas about three-quarters of German exports are consigned to European countries, only about one-half of German imports are received from Europe. The difference is inherent in the fact that the bulk of German exports is composed of finished manufactures, while the bulk of imports is composed of raw materials and food-stuffs. It is noteworthy that in the twelve months ended September 30, 1928, the European proportion in the total reverted almost precisely to the pre-war proportion, though naturally the nominal money value was much increased. The following table is made up on the same general lines as the one already given for exports.

Origin of German imports	1913 January 1 to December 31		1926-27 October 1 to September 30		1927-28 October 1 to September 30	
	(In millions of marks)	(Per cent of total)	(In millions of reichsmarks)	(Per cent of total)	(In millions of reichsmarks)	(Per cent of total)
Great Britain	876	8.1	861	6.4	917	6.4
France	583	5.4	659	4.9	805	5.6
Sweden, Norway, Denmark	498	4.6	814	6.1	745	5.2
Netherlands	333	3.1	691	5.2	702	4.9
Italy	318	3.0	505	3.8	495	3.5
Czechoslovakia	—	—	527	3.9	566	3.9
Russia	1,425	13.2	—	—	—	—
Austria-Hungary ...	828	7.7	—	—	—	—
Other European countries	953	8.9	2,989	22.3	3,127	21.8
Totals for Europe	5,814	54.0	7,046	52.6	7,357	51.3
United States	1,711	15.9	1,975	14.8	2,107	14.7
Argentina	495	4.6	1,017	7.6	978	6.8
British India	542	5.0	521	3.9	692	4.8
Other non-European countries	2,208	20.5	2,842	21.1	3,213	22.4
Totals for non-European countries	4,956	46.0	6,355	47.4	6,990	48.7
Grand totals....	10,770	100.0	13,401	100.0	14,347	100.0

d. Tariffs and Commercial Treaties.

Germany has made further progress since the publication of the last Report in negotiating commercial treaties with other countries. On September 1, 1928, a treaty of commerce and navigation was signed with the Union of South Africa. Its effect is to legalize the existing status of trade, which has been proceeding on the most-favored-nation basis, except as the Union of South Africa has given preferential treatment to trade with Great Britain and British Dominions. The treaty with South Africa is the first concluded by Germany since the war directly with a British Dominion. It was ratified by the Reichstag on December 14, 1928.

On October 30th, a treaty of commerce and navigation was concluded with Lithuania on the most-favored-nation basis, completing and replacing the treaty of June 1, 1923. It is to remain in effect for five years and thereafter will be automatically prolonged unless denounced. It provides no moderation of import duties on either side, but Lithuanian export duties on timber and certain animal products will be reduced or abolished. Lithuania agrees to abolish further restriction on exports as soon as Germany takes corresponding action. A treaty with Esthonia on the most-favored-nation basis was signed on December 7, 1928.

Two protocols completing the Franco-German commercial treaty of August 17, 1927, were initialled in Paris on June 20, 1928. Aside from regulating certain details of that treaty, including minor

modifications of customs schedules provided for under it, arrangements were made whereby the German Government should propose legislation for the reduction of certain import duties on industrial products fixed in the general tariff of 1925. The protocols have still to be ratified.

A supplementary convention was signed on October 19, 1928, to the commercial treaty of October 6, 1927, with Jugo-Slavia, the principal effect of which was to reduce the German import duty on maize for seed purposes or distillation.

A preliminary commercial treaty was concluded on August 17th with the National Chinese Government, under which both countries declared themselves willing to enter into immediate negotiations for the conclusion of a treaty of commerce and navigation. It was ratified by the Reichstag on December 14, 1928.

On November 10, 1928, an agreement was signed with Rumania which did not relate specifically to matters of trade, but because of its important character in settling outstanding financial difficulties between the two countries, is likely to have important effects in the future. It involved concessions on the part of both Governments. Rumania, among other things, committed herself to return whatever sequestered German property had not been liquidated by August 27, 1928, and agreed under certain terms and conditions to continue the service of various pre-war loans. The two Governments also declared that "as from the coming into force of the present agreement, all questions of a financial nature outstanding between the two Governments and the banks of issue will be looked upon as definitively settled". The German Government for its part committed itself to pay to Rumania 75.5 million reichsmarks in four instalments over slightly more than two years. Ratifications have not yet been exchanged, but were expected within eight weeks from the date of the signature.

Negotiations looking toward the conclusion of commercial treaties with Czechoslovakia, Austria, Hungary and Russia have so far failed to lead to any definite results. Negotiations with Poland have now been carried on intermittently for many months; no conclusions have yet been reached, but it appears that some progress has been made in defining principles basic to the agreement.

The German customs tariff has undergone no changes of importance during the last few months, though various changes are in contemplation. The German Government submitted to the Reichsrat on October 11, 1928, a bill which is intended to make some progress toward the abolition of import and export prohibitions, and to reduce certain duties in the general tariff of 1925, in line with the recommendations of the World Economic Conference in Geneva.

e. The Balance of Payments.

The import and export of goods make up only a part of the balance of payments. The remainder comprises all the other services and things of value exchanged between Germany and the rest of the world. In many particulars these remaining items are

not susceptible of definition in terms of figures, and the balance of payments must therefore remain to a large extent a matter of conjecture. But it is nevertheless interesting to bring together such elements as can be stated in reasonably exact terms, with a view to shedding some light on the balance of payments as a whole.

In preceding annual Reports analyses have been made of the balance of payments within such limits as the available figures permitted. The essential parts of these analyses are repeated below, along with a similar statement for the past year. Inasmuch as many of the so-called invisible items entering into a fully comprehensive balance of payments are necessarily matters of estimate and deduction, no effort has been made to work to a mathematical balance between the debit and credit sides of the several accounts. The figures used have been based upon the complete but partially conjectural statements published by the Institut für Konjunkturforschung; but these have been adjusted to cover somewhat different periods of time to suit the Annuity years. Wherever the merchandise balance enters into the statement, imports and exports have been adjusted according to the coefficients of the Institut für Konjunkturforschung in order to correct the over-statement of imports and the under-statement of exports inherent in the official figures. It should also be explained that wherever reparation payments enter into the calculations the figures used have been those for transfers made in foreign currencies only. Deliveries in kind have been omitted for the sake of simplicity from both sides of the balance; their value has been given neither among the exports from Germany nor among the payments made by Germany.

It would be desirable, of course, to state the balances for all four years in tabulated form, but such a table would tend to obscure the essential qualifications to which the figures are subject. Accordingly, the records of the four years are given separately, but in as nearly comparable form as possible.

1. Balance during the First Annuity Year, 1924-25.

In the twelve months' period from September, 1924, to August, 1925, the excess of merchandise imports over exports, as corrected, amounted to about 3,400 million reichsmarks. To this deficiency should be added the payments made in foreign currencies on reparation account, 271 million gold marks. A further addition must be made to cover the year's increase in the Reichsbank's gold stock, 622 million reichsmarks; and an indefinite amount covering the increase in devisen holdings, a figure not reported for this period. In total and disregarding certain smaller items, such as interest on foreign debt, travellers' expenditures, wages of foreign workmen, insurance, and so on, the net deficiency may be put at about 4,500 million reichsmarks.

There were only two items, even stated approximately, to be entered on the other side of the account. One was the volume of long-term public issues placed abroad, including the German External Loan, 1924, amounting in terms of effective yield to Germany to a total of about 1,200 million reichsmarks. The other item, adapted from the figures of the Reich Statistical Office, was the

net amount paid to Germans on shipping and transportation account, estimated at about 250 million reichsmarks. These items reduced the deficiency to about 3,050 millions. Conjecturally, this was covered by short loans, the volume of deposits placed by foreigners in German banks over and above the deposits placed by Germans abroad, the further return of German property previously held abroad, the purchase by foreigners of property in Germany and retained there, and other smaller items. The value to be placed upon these several factors remains a matter of opinion.

2. Balance during the Second Annuity Year, 1925-26.

In the twelve months' period from September, 1925, to August, 1926, the official figures showed a small deficit in the merchandise balance of trade, but after correction according to the precedent of the Institut für Konjunkturforschung, the value of exports showed an excess over imports in the round amount of 300 millions. Shipping and transportation earnings increased the surplus further by about 300 millions. In addition, foreign credit in the shape of long-term loans produced the effective amount of 1,750 million reichsmarks. Without taking into account any other items for which figures are not available, such as purchases of property and shares of stock by foreigners, or remittances of emigrants or other receipts from abroad, the surplus for the year stood at 2,350 millions.

Against this surplus were to be placed only two items of known size. One was the net figure for reparation transfers in foreign currencies, amounting to 416 million gold marks, and the other was the reported increase for the year in the Reichsbank's stock of gold and devisen amounting to 495 million reichsmarks. These items, amounting to about 900 millions, reduced the surplus to about 1,450 millions. This amount remained conjecturally to cover such items as the repayment of short debt, the service of long-term loans, some repurchase of long-term German obligations placed abroad, purchases of securities of foreign origin, credit given to foreigners in the form of increased deposits in foreign banks, and other smaller items.

3. Balance during the Third Annuity Year, 1926-27.

In the twelve months' period from September, 1926, to August, 1927, the position of the German balance of payments was much changed from the foregoing. The merchandise balance reverted to the condition of 1924-1925 and became heavily adverse. The value of imports exceeded exports after correction by a round amount of 2,700 million reichsmarks. To this deficit should be added the reparation transfers in foreign currencies amounting to 683 million gold marks, and a further slight addition made to cover the year's increase in the Reichsbank's reserves of gold and devisen amounting to 20 million reichsmarks. In total, and disregarding such undetermined items as stock market and other profits removed from Germany by foreigners, interest on foreign debt, travellers' expenditures and so on, the deficiency may be said to have been about 3,400 million reichsmarks.

Against this deficit were again only two items which can be stated even approximately. The first was the effective amount of capital issues placed abroad during the period estimated at about 1,275 million reichsmarks. The other was a net estimate for the amounts paid by foreigners to Germans on shipping and transportation account, in the sum of about 300 millions. These items reduced the deficiency to about 1,800 millions. Conjecturally, this deficit together with such supplements as are represented in various undetermined items, was covered by short loans, larger deposits of foreign money in German banks, sales of foreign securities for German account, and so on.

4. Balance during the Fourth Annuity Year, 1927-28.

In the twelve months' period from September, 1927, to August, 1928, the deficit in the merchandise trade balance after correction amounted to about 2,600 millions. To this deficit must be added the reparation transfers in foreign currencies, amounting to 943 million gold marks. A further substantial addition must be made to cover the year's increase in the Reichsbank's reserves of gold and devisen, amounting to 433 million reichsmarks. In total, and disregarding undetermined items such as interest on foreign debt, travellers' expenditures, wages of foreign workmen, and so on, the deficiency may be said to have been about 4,000 million reichsmarks.

Against this deficit are to be placed only two items which can be stated even approximately. The first is the effective amount of capital issues placed abroad during the period, with a fair allowance for foreign participations in domestic issues, estimated altogether at 1,800 millions. The other item covers the net amount estimated to have been paid to Germans on shipping and transportation account, about 350 millions. These items reduce the deficiency to about 1,850 millions, about the same as that for the preceding year. Conjecturally, this deficit together with such supplements to it as are represented in various undetermined items was covered by short loans, the return to German possession of property held abroad, increased deposits in German banks, and so on.

5. Summary.

From the foregoing analysis, though it is necessarily superficial and in its balancing items conjectural, the character of the four years is apparent. In the first Annuity year there was a substantial increase in the German debt owing abroad both at long and short time. In the second Annuity year the increase in the sum total of German debt was slightly less than the increase in the Reichsbank's stock of gold and devisen. In the third Annuity year the debt was again much increased without substantial increase in the Reichsbank's stock of gold and devisen. In the fourth Annuity year there was again an increase in the sum total of the German debt owing abroad, but with a considerable offset in the shape of further increments to the Reichsbank's stock of gold.

VIII. German Business Conditions.

It will be recalled that a year ago German business was in the midst of a process of expansion which was carrying the volume of production to the highest point reached since stabilization. This expansion derived a special stimulation from the very free use of credit, particularly on the part of the public authorities. Prices were rising, which in turn called for wage increases, and in many cases these were promptly offset by further price increases.

Six months ago, at the time of the interim Report, it appeared that a reaction from these conditions had set in. The physical volume of production in certain industries had fallen considerably from its former high level, and, whether for seasonal reasons or otherwise, the demand from consumers had slightly diminished. It appeared that German business conditions had reached a fairly late phase in the expansionary process, and there was doubt as to the future course of the movement.

By the late autumn of 1928, the most recent period for which figures are now available, the volume of production had shown no substantial further change and was maintaining itself at about the rate of the first half of 1927, already substantial. The volume of consumption was responding to the usual seasonal influences but was remaining at or about the high level of a year ago. The marked rise in prices had given way to a much more moderate movement which has the earmarks of increasing stability. Up to the time of the most recent figures, and without attempting any forecast of the future, it appears that the expansionary tendency of a year ago has been checked before it assumed dangerous proportions, and that the reaction from it has merely brought a return to the position previously held.

Before proceeding to a detailed consideration of the figures upon which the foregoing general statements are based, it is appropriate to examine certain developments of more or less broad application.

These center on the disposition made of the savings derived from the arduous process of rationalization undertaken in the autumn of 1925, which resulted temporarily in heavy unemployment and interrupted the rise of wages. Rationalization also increased materially the individual productive capacity of the workers, by supplying them with improved machinery and by the introduction of perfected methods. The result was an increase in earnings per unit of production, which could be distributed either to stockholders in dividends, to the public in lower prices, to the workers in higher wages or to the enterprise itself by way of debt repayment, extensions and betterments of plant, or otherwise.

It is possible to determine the actual application of the savings resulting from rationalization only in respect of prices and wages. Prices of industrial products fell during 1926 in connection with the rationalization process, but this decline was fully offset by the rapid rise which took place in 1927. At present relative stability appears to have been attained at or about the level prevailing before rationalization was begun. Wage increases have been general; since the autumn of 1925, when rationalization became widely extended, they

have risen about 20 per cent. Social charges, which may be grouped with wages in the sense that they both represent labor costs, have risen simultaneously. No official figures relating to present conditions exist with respect to the payment of dividends. The Reich Statistical Office recently reported that a compilation of corporation reports covering business years ended in the first quarter of 1928 showed dividend payments at 7.4 per cent of the paid-in capital as compared with 5.7 per cent for the corresponding period a year before. Figures for the business year 1928 still remain largely a matter of conjecture. As for the remaining item, the repayment of debt and the application of earnings to extensions and betterments of plant, the widest variation exists in different enterprises, depending in large part upon the policy and capacity of the individual concern.

Though the increases in wages and social charges have much reduced rationalization savings which might have found other disposition as, for example, in lower prices, they have nevertheless been of undoubted value to the German economy as a whole, as is always the case when higher wages go hand in hand with higher productivity. The present level of consumption, which appears to have maintained itself fully as compared with a year ago, is largely to be accounted for on this score, and it is doubtless responsible to a considerable extent for the prompt checking of the decline in production which took place last spring. It is manifest also that the higher wages have not only maintained but have raised the standard of living among the laboring population.

But to be truly effective in the long run, higher wages must not only coincide with higher productivity per worker, but they must not be offset by higher prices for the commodity produced. As has been noted in previous Reports, higher wages in the past few years have frequently been countered immediately by higher prices. In the last six months there appears to have been some moderation of this tendency; wages have risen, whereas prices as a whole have remained stable.

It is not to be assumed that the process of rationalization is yet complete in Germany. By its very nature it does not stop but must continue. In part the limits to which it can be carried depend on the available capital, but it is also clear that the perfecting of industrial processes is a test of management. There is every reason to suppose that the energy and capacity with which German industry has attacked this problem up to the present will continue to play a dominating part in its solution.

a. Volume of Industrial Production.

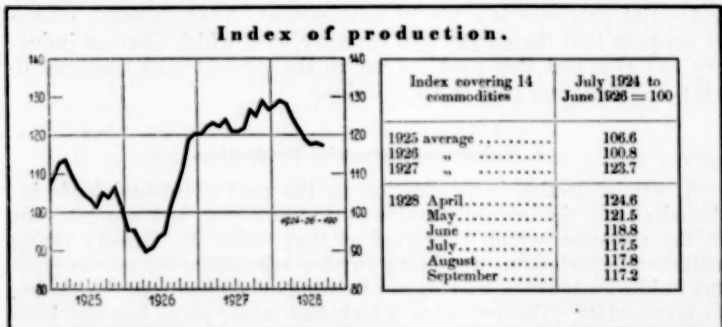
A certain decline in production on the part of several basic industries from the intensely active output of a year ago was inherent in the situation which prevailed at that time. An already rising volume of production was being further stimulated by orders from the public authorities, and signs of undue expansion were beginning to accumulate. The recession which has taken place has not been

at any time acute, as would have been likely if the expansion had been carried further, but has been in the nature of a levelling-off to a generally high plane of productive activity. Aggregate production, taking into account all industries for which reasonably accurate reports are available, is doubtless lower than in 1927, but it is nevertheless decidedly above that of any other year since stabilization.

While this general estimate applies to the situation as a whole, the available figures from individual industries do not present a consistent picture; some show considerable declines from the position reached a year ago, whereas others have fully maintained the position then reached. The production of steel, pig iron and textiles, for example, shows a decided falling-off. The volume of coal and lignite mined, however, compares closely with that of 1927, a development which appears to go hand in hand with favorable reports, sometimes in figures and sometimes in the form of general statements, from certain basic and numerous finishing industries.

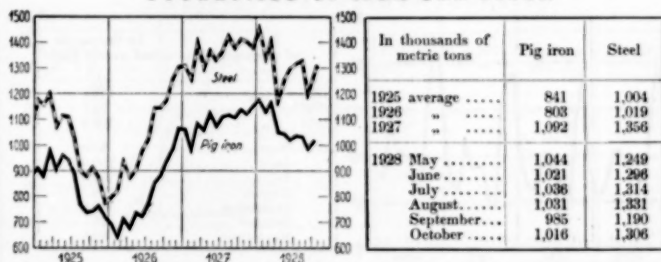
For purposes of condensation, the production and other available figures descriptive of business activity will not be treated in detail in this chapter, except as there may be special factors which call for individual comment. Comparisons over a term of years will be sufficiently clear from the diagrams; the figures given carry further the tables previously printed in the Reports. In all cases, figures are derived from official sources, mainly from the Reich Statistical Office or its associated organization, the Institut für Konjunkturforschung. Since its establishment three years ago, the Institut für Konjunkturforschung has done much to improve the material basis for estimating current business conditions in Germany.

The following diagram and table show the Institut's index of industrial production. It is the broadest authoritative index available in Germany, but it covers only fourteen commodities, and is much influenced by developments in the iron and steel and textile industries. Its general course will be seen to coincide fairly closely with the separate diagrams dealing with the production of those three industries, which, as already indicated, has been recently running below a year ago.

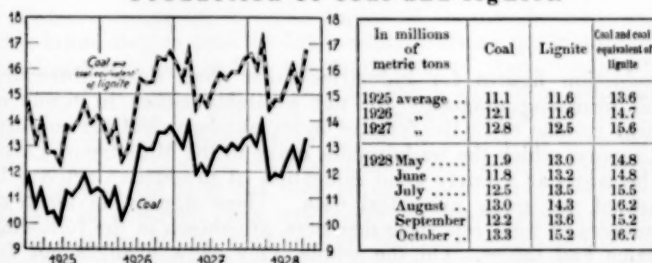


A larger part than heretofore of the output of steel and steel products and iron goods has been passing into the export trade. This development became noteworthy in the first half of 1928, and the progress then observed has continued. But the growth does not appear to have been sufficient to offset the decline in the demand from the domestic market, owing in part to diminished orders from the Railway Company and in part to somewhat lessened demands for new building. Early in January the steel syndicate, practically in control of the German steel industry, advanced prices, and in May a further increase was effected. In November a labor dispute in the Rhenish-Westphalian steel and iron plants resulted in a lock-out, which was not concluded until December 3-4, 1928. The effect of the lock-out does not appear on the following diagram, which shows figures up to the end of October only. The cessation of work in the steel mills has had the temporary result of causing some increase in coal stocks and a moderate diminution of coal production in November; it also brought about some liquidation of stocks of iron and steel which the mills had on hand at the beginning of the dispute. According to very recent figures, pig iron production in November declined to 267,000 tons, about 26 per cent of the usual monthly production. Figures for the production of steel in November are not yet available.

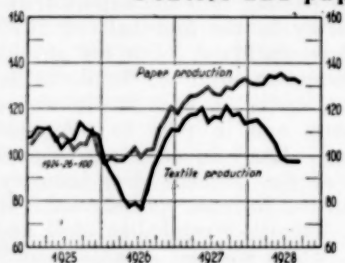
Production of iron and steel.



Production of coal and lignite.



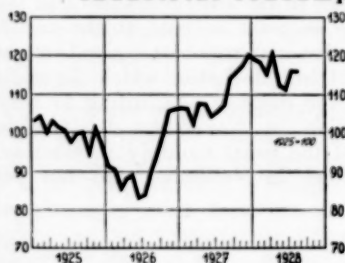
Textile and paper production.



July 1924 to June 1926 = 100	Index of textile pro- duction ¹	Index of paper production
1925 average	109.0	106.6
1926 "	90.8	103.7
1927 "	116.4	126.9
1928 April	109.0	134.3
May	105.2	133.8
June	99.2	135.4
July	97.5	132.8
August	97.5	133.1
September .	97.2	131.8

¹ Cotton and flax yarns and fabrics.

Industrial consumption of electricity.



Current delivered daily per kw. connected capacity by 103 plants	1925 = 100
1925 average	100.0
1926 "	92.2
1927 "	109.4
1928 March	114.9
April	121.0
May	112.7
June	111.3
July	116.1
August	116.0

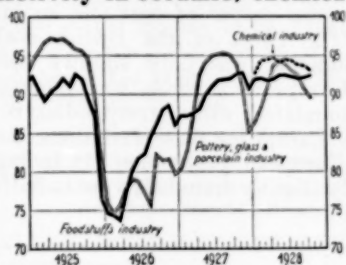
Potash sales.



In terms of pure potash	In thousands of metric tons
1925 average	102.1
1926 "	91.7
1927 "	103.3
1928 May	63.8
June	100.0
July	102.6
August	108.7
September	140.8
October	76.5
November	82.5

Production figures for industries other than those illustrated in the foregoing diagrams are not available either in terms of physical volume or in the form of index numbers; but the employment reports which the trade unions make to the Ministry of Labor may be taken as a fairly good indication of productive activity in default of any other numerical data. These figures, in terms of percentages of total reporting members, are shown in the following diagrams and tables. On the whole, they show changes not far one way or the other from the 1927 average.

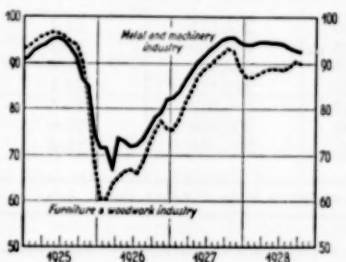
Activity in ceramic, chemical and foodstuffs industries.



Fully employed in percentages of reporting members of trade unions ¹	Pottery, glass and porcelain industry	Chemical industry	Foodstuffs industry
1925 average ..	94.3	—	89.5
1926 " ..	78.2	—	81.4
1927 " ..	90.6	—	90.2
1928 May	94.2	94.1	92.5
June	93.8	94.5	92.5
July	93.0	94.3	92.3
August ..	92.4	93.8	92.1
September ..	90.8	93.6	92.2
October ..	89.4	93.0	92.5

¹ Including part-time work in terms of full-time.

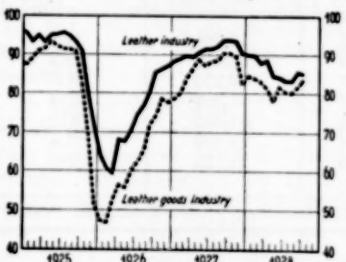
Activity in metal and machinery and woodwork industries.



Fully employed in percentages of reporting members of trade unions ¹	Metal and machinery industry	Furniture and woodwork industry
1925 average	90.6	91.5
1926 "	74.1	68.1
1927 "	90.8	86.7
1928 May	94.5	88.8
June	94.4	88.8
July	94.2	88.7
August	93.4	89.3
September ..	92.9	90.4
October	92.4	90.0

¹ Including part-time work in terms of full-time.

Activity in leather industry.



Fully employed in percentages of reporting members of trade unions ¹	Leather industry	Leather goods industry
1925 average	91.0	85.1
1926 "	73.3	62.3
1927 "	91.1	86.1
1928 May	84.5	77.9
June	84.1	81.6
July	83.1	80.3
August	83.1	80.1
September ..	85.3	82.0
October	84.9	83.6

¹ Including part-time work in terms of full-time.

Before passing on to other phases of German business activity, it is interesting to note the share which German production of coal, steel and iron has had in the production of those commodities in Europe at large. In the three years and a half from the beginning of 1925 to July of this year, the principal producing countries in Europe greatly enlarged their aggregate output, in harmony with the general progress of reconstruction. The proportionate share of Germany in the total has been on the whole remarkably constant. It will be observed from the following tables, which are derived from figures of the Institut für Konjunkturforschung, that the secondary stabilization crisis in Germany was reflected in a decline of the German proportion of the total European output of iron and

steel during the second half of 1925 and the first half of 1926, and that the British coal stoppage in the second half of 1926 was attended by a decline in the total European output of coal and an increase in the German output. The effect of the British coal stoppage on iron and steel production was only slightly less marked: the rate of increase in Europe as a whole was checked and the German production was stimulated, with corresponding reflections in the German proportion. Except for these deviations, the share of Germany in the total European production (including German production) has varied only slightly from half-year to half-year.

Comparative coal production (In thousands of metric tons)	Germany	Europe (9 countries, including Germany) ¹	German output in percentage of European output
1925 First half.....	64,566	264,117	24.4
Second half.....	68,163	269,467	25.3
1926 First half.....	65,745	238,190	27.6
Second half.....	79,625	217,120	36.7
1927 First half.....	76,056	299,627	25.4
Second half.....	77,539	300,604	25.8
1928 First half.....	75,945	296,451	25.6
¹ Belgium, Czechoslovakia, France, Germany, Great Britain, Holland, Poland, Russia, Saar.			
Comparative pig iron production (In thousands of metric tons)	Germany	Europe (10 countries, including Germany) ¹	German output in percentage of European output
1925 First half.....	5,572	17,725	31.4
Second half.....	4,604	16,266	28.3
1926 First half.....	4,161	16,210	25.7
Second half.....	5,481	16,400	33.4
1927 First half.....	6,366	21,082	30.2
Second half.....	6,738	21,489	31.4
1928 First half.....	6,586	21,723	30.3
¹ Austria, Belgium, France, Germany, Great Britain, Luxemburg, Poland, Russia, Saar, Sweden.			
Comparative steel production (In thousands of metric tons)	Germany	Europe (11 countries including Germany) ¹	German output in percentage of European output
1925 First half.....	6,833	20,072	34.0
Second half.....	5,361	18,531	28.9
1926 First half.....	5,300	18,772	28.2
Second half.....	7,042	19,432	36.2
1927 First half.....	7,954	24,846	32.0
Second half.....	8,357	24,675	33.9
1928 First half.....	7,915	25,349	31.2
¹ Austria, Belgium, France, Germany, Great Britain, Italy, Luxemburg, Poland, Russia, Saar, Sweden.			

The German merchant fleet has not yet resumed the place it held immediately before the war among the merchant fleets of the world, but it has taken important steps in that direction. According to figures published by the Reich Statistical Office, its total tonnage at the beginning of 1928 was 70 per cent of the tonnage at the beginning of 1914.

Number and tonnage of German merchant vessels afloat	Number of vessels	Tonnage (In thousands of gross registered tons)
January 1, 1914	4,935	5,239
January 1, 1924	4,238	3,008
January 1, 1925	4,270	3,169
January 1, 1926	4,151	3,209
January 1, 1927	4,045	3,420
January 1, 1928	3,981	3,678

At the end of 1918 Germany had practically no merchant fleet. In the ten-year period she has risen to fourth place among the shipping nations of the world, although her proportion of the total world tonnage is only half as large as before the war. According to Lloyd's Register of Shipping, Germany had 6 per cent of the world's tonnage in June, 1928, compared with 12 per cent in 1914. Her present tonnage is exceeded by that of Great Britain, with 32 per cent of the world's tonnage; the United States, 17.8 per cent; and Japan 6.5 per cent. But the German tonnage includes a much larger proportion of new vessels than that of other countries.

In the construction of ships Germany stands second only to Great Britain. In 1927 she completed 261,000 gross registered tons as compared with 259,000 in 1926. Present reports from German shipyards are by no means uniform, but some of them appear to be short of orders for new ships and others have encountered labor difficulties. At the end of September, 1928, vessels under construction aggregated 423,000 registered tons compared with 516,000 tons a year previously. Great Britain had under construction at the same dates 1,090,000 tons and 1,536,000 tons respectively.

b. Housing Conditions and Building Activity.

The amount of new construction needed to keep pace with housing requirements as they increase from year to year, plus the new construction necessary to overtake as far as possible the shortage already existing, places constant pressure on the capital market, as has already been noted in the chapter on credit. Granted reasonable growth in available funds, there is offered in this field alone and without taking account of other urgent construction, an immense potential demand upon the productive capacity of industry.

According to the estimates of the Institut für Konjunkturforschung, the annual increase in the number of German families calls at present for the construction of about 220,000 dwellings in a year. During 1927 the net increase in dwellings was about 290,000; figures for 1928 are not yet available, but it is reported that the number of new dwellings built during the year will be only slightly less. This means that the shortage has been reduced only at the rate of some 60,000 or 70,000 dwellings in each of the last two years. At the end of 1926, according to the estimates of the Labor Ministry of the Reich, the urgent requirements for new dwellings amounted to about 600,000. In making this estimate, the Labor Ministry apparently took account of urgent needs only, because a housing census undertaken by the German Government in May, 1927, indicated that some 900,000 families in about 70 per cent of the population were without separate living quarters. Taking the estimate of 600,000 as a fair reflection of the housing shortage at the end of 1926, it appears that even with the new construction during the intervening period the shortage now stands somewhere between 450,000 and 500,000 dwellings. By reason of the large birth-rate immediately before the war the annual demand for new dwellings is likely to increase rather than diminish during the next few years. But in or about 1936, according to a forecast of the Institut für Konjunkturforschung, the demand for new dwellings should diminish rapidly as a result of the lower birth-rate during the war and in the post-war years. The following table gives the Institut's estimates of the probable additional housing which will be required in future years to meet the increase in the number of families.

New housing required by rise in number of families	Estimated average annual increase in number of dwellings required
1927-30	225,000
1931-35	250,000
1936-40	190,000
1941-45	85,000
1946-50	100,000

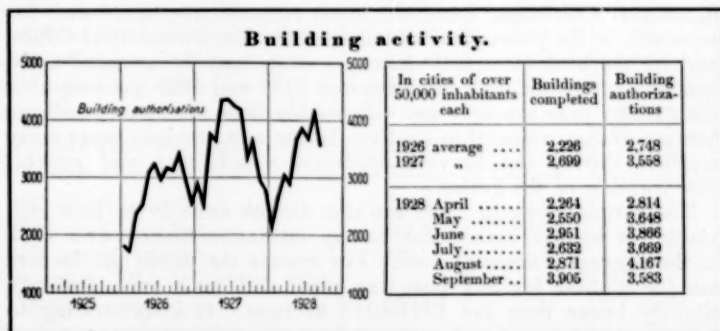
From the estimates given in the foregoing table, it appears that the present volume of construction, if continued, will somewhat more than take care of the requirements resulting from the increase in the number of families during the next few years, and will be far above the estimated requirements after 1935. But it is not sufficient unless increased to eliminate the shortage left over from the war and post-war years, until the years of lessened new demand are reached.

The German public authorities have given much attention to the pressing needs for new housing, and have made very substantial amounts available for the purpose. The most recent figures

showing the expenditure upon new dwelling construction terminate with March 31, 1928. As of that date the Institut für Konjunkturforschung estimated that approximately 8,800 million reichsmarks had been spent on housing construction since stabilization. Of that sum 54 per cent was derived from public sources, including not only funds supplied directly by public bodies but also amounts which the public authorities obtained from private sources and directed through various channels to the construction of dwellings. More than half, or 2,624 millions, of the total amount supplied from public sources was derived from the tax on rents. During the financial year from April, 1927, to March, 1928, the amount derived from this source alone for dwelling construction was 896 million reichsmarks. Loans granted and credits raised by public bodies amounted in total during the four-year period to 1,134 millions, and direct budgetary contributions amounted to 739 millions. Subsidies by the States and the utilized part of an interim credit granted by the Reich in 1926 in the amount of 200 millions aggregated together some 253 millions.

It should be noted in this connection that the rigid control of rents chargeable on dwellings completed before July 1, 1918, has much deterred private capital from building houses which would have to compete with those previously existing, and that the activity of the public authorities in stimulating house construction out of public funds or with the use of public credit has also deterred private builders from acting upon their own initiative and within their own resources. The present level of controlled rents is 120 per cent of the pre-war charge, at which it has stood since October 1, 1927. The Statistical Office's index of building costs, on the other hand, stands at about 173 per cent of pre-war costs.

The following diagram shows the number of building authorizations granted in principal German cities month by month since the beginning of 1926, and the table supplements the number of authorizations with the number of buildings completed. The figures include, of course, the number of new houses authorized or built, many of which provide for numerous individual dwellings.



c. Agricultural Yield.

The 1928 harvest has apparently produced the largest yield of any crop since the war. Coming after the two inferior crops of 1926 and 1927, the result is important for the nation as a whole, because it relieves the strain which food imports have placed upon the foreign trade balance. For German agriculture the benefit derived is likely to be smaller, because the prices at which the crop is being sold are under the influence not only of the good crop at home but of favorable harvests in other countries.

The provisional estimates for the 1928 crops of bread cereals and potatoes, as shown in the following table, are a combination of the estimates of the Prussian Statistical Office for Prussia and those of the German Agricultural Council (Deutscher Landwirtschaftsrat) for the remainder of Germany. For barley and oats the estimates of the German Agricultural Council are given and for sugar beets the provisional estimates of the Reich Statistical Office. All estimates for years prior to 1928 are those of the Reich Statistical Office.

Crop Yields (In thousands of metric tons)	Wheat (winter and spring)	Rye (winter and spring)	Barley (winter and spring)	Oats	Potatoes	Sugar beets
1911-1913 average ¹	3,765	9,585	—	7,680	37,962	13,986 ²
1924	2,428	5,730	2,400	5,654	36,402	10,267
1925	3,217	8,063	2,599	5,585	41,718	10,326
1926	2,597	6,406	2,463	6,325	30,031	10,495
1927	3,280	6,834	2,738	6,347	37,550	10,854
1928 (provisional estimates)	3,823	8,294	3,231	6,605	40,506	10,078

¹ Present frontiers.

² Figures for 1914.

The estimated yields of grain crops in 1928, though the largest since the war, nevertheless appear on the whole to have run about 11 per cent less than the 1911-1913 average within the present frontiers. For bread cereals the 1928 estimates show an increased yield of nearly 20 per cent as compared with 1927. The barley crop was 18 per cent higher, oats 4 per cent and potatoes 8 per cent. The figure given for sugar beets, the latest authoritative figure thus far reported, is the provisional estimate of the Reich Statistical Office, and on the basis of results in other crops may be assumed to be low. As compared with the crops for 1926 and 1927 the crops for the current year are even more favorable than the figures indicate because of improvement in quality. In the two previous years rainy weather during the harvest produced a softening and general deterioration of the grains.

The larger crops in 1928 are due almost entirely to increased yields per hectare, rather than to any substantial change over 1927 in the aggregate areas planted. For cereals the yields per hectare are the highest for any post-war year, and, as a rule, are only slightly lower than the 1911-1913 average. It is interesting to

observe that since 1913 the areas planted to wheat have considerably increased, whereas the areas planted to rye have diminished, thereby illustrating a shift in the demand in the German market.

Area cultivated (In thousands of hectares)	Wheat	Rye	Barley	Oats	Potatoes	Sugar beets
1911-1913 average (present frontiers) .	1,657	5,164	—	3,884	2,758	467 ¹
1924.....	1,466	4,260	1,446	3,525	2,760	394
1925.....	1,552	4,709	1,435	3,452	2,809	403
1926.....	1,601	4,732	1,486	3,476	2,760	403
1927.....	1,749	4,698	1,478	3,476	2,800	434
1928 (provisional estimates)	1,731	4,645	1,518	3,514	2,846	454

¹ Figures for 1914.

The increase in yields has not resulted in an equivalent expansion in the farmers' purchasing power because of the decline in prices of agricultural products. Prices of grains especially have declined on the world markets because of the favorable crops in other countries as well as in Germany. On the other hand, the German economy as a whole receives the full benefit of the enlarged output; not only are the internal demands supplied to a greater extent out of domestic production, but the remainder necessary to feed the population is imported from other countries at lower prices than in former years. Poor crops have been a substantial factor in the size of Germany's import balance in previous years, but with the increase in the 1928 grain crops some curtailment in imports of foodstuffs is to be anticipated.

Agricultural products in foreign trade (Foodstuffs and beverages in millions of reichsmarks)	Imports	Exports	Import balance
1908 monthly average	170.2	52.5	117.7
1909 monthly average	193.7	55.2	138.5
1910 monthly average	184.6	62.6	122.0
1911 monthly average	230.1	65.5	164.6
1912 monthly average	245.4	65.8	179.6
1913 monthly average	234.0	89.1	144.9
Six year monthly average	209.7	65.1	144.6
1925 monthly average	335.2	43.1	292.1
1926 monthly average	297.6	39.7	257.9
1927 monthly average	362.5	34.9	327.6
November 1927 to October 1928 monthly average	355.4	47.1	308.3

The import and export figures given in the foregoing table for pre-war years do not, as do the crop yield figures, take into account the loss of territory under the Treaty of Versailles. Since the ceded territory comprised about 17 per cent of the former total area producing wheat, rye and potatoes, its loss has been reflected in a larger import surplus for post-war years.

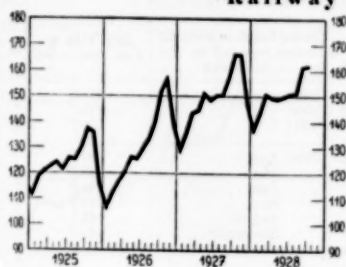
d. Domestic Trade and Consumption.

It appears from the available figures that the general volume of trade and consumption has continued at or near the high average of 1927. On the basis of money values alone, it seems that trade has been running well above that average; but since prices have risen somewhat in the meantime, trade returns in terms of money doubtless give an exaggerated picture of the total turnover, and allowances should be made accordingly. But it does not appear, on the basis of returns expressed in physical volume, that full allowance for price changes would do more than bring 1928 substantially to the level of 1927. This necessarily leaves out of account the late months of 1928, figures for which are not yet generally available.

The contrast of the large volume of trade and consumption with the moderate decline in the volume of production, which has already been noted, calls for special comment. The conditions of a year ago, particularly in the heavy industries, were precisely those which lead to over-production and eventually to business depression. The maintenance of trade and consumption in large volume appears to have been a factor in reducing stocks. It is reported also that distributors have assumed more and more the practice of hand-to-mouth buying, which is a valuable method of economizing capital and of forestalling business depressions having their origin in over-production and excessive stocks.

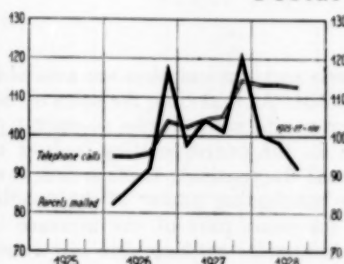
The following diagrams and tables illustrate the course of various branches of distribution in the last four years and are mainly self-explanatory. It will be observed that the volume of railway traffic as measured by the number of cars placed daily at the disposal of shippers ran during the first half of 1928 somewhat higher than in the first half of 1927; thereafter, except for the period immediately before October 1st, when there was apparently some acceleration of shipments in anticipation of the increase in rates effective on that date, the volume of traffic has been running at or slightly below that of a year ago. Passenger traffic, on the other hand, has shown a material increase, for the first time in several years, and it has been running in 1928 at a general level about 6 per cent higher than in 1927. Postal check traffic and Reichsbank clearings, both stated in terms of reichsmarks, show a substantial increase, though they may possibly give an enlarged impression of the present volume of trade, because of the moderate increase in prices which has taken place since a year ago. The diagram and table showing the volume of orders received are taken from index numbers of the Institut für Konjunkturforschung which are based upon reports covering the iron, machinery, building, textile and paper industries. During the first half of 1928 the index ran substantially lower than during the corresponding period of 1927, forecasting in some degree the decline which later took place in the iron and textile industries.

Railway traffic.



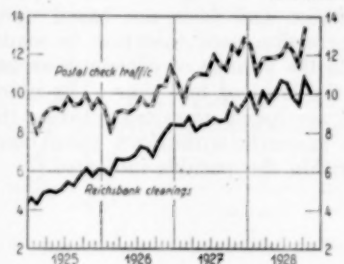
Freight cars placed at the disposal of shippers	Daily averages each month in thousands of cars
1925 average	124.1
1926 "	129.9
1927 "	149.3
1928 May	149.1
June	149.8
July	150.7
August	151.2
September	161.4
October	162.0

Postal traffic.



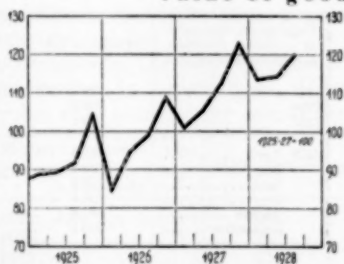
Average number for 1925-27 = 100	Parcels mailed	Telephone calls
1925 average	99.8	96.8
1926 "	94.3	96.9
1927 "	105.9	106.3
1927 First quarter	97.4	102.2
Second "	103.9	104.1
Third "	101.1	104.9
Fourth "	121.0	114.2
1928 First "	100.2	113.3
Second "	98.2	113.7
Third "	91.5	112.7

Clearings.

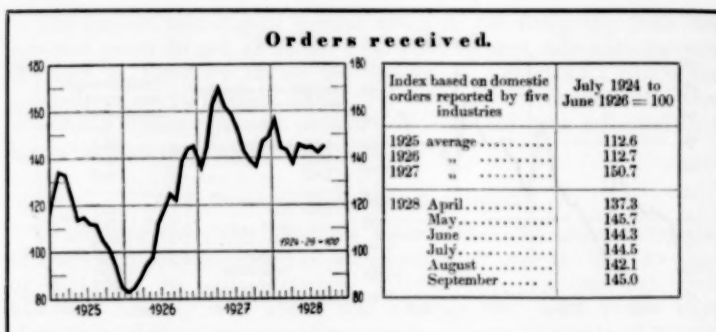


Monthly totals in milliards of reichsmarks	Reichsbank clearings	Postal check traffic
1925 average	5.3	9.2
1926 "	7.0	9.6
1927 "	8.7	11.3
1928 May	10.1	11.9
June	10.7	12.0
July	10.6	12.6
August	9.9	12.2
September	9.4	11.4
October	11.0	13.5
November	10.0	—

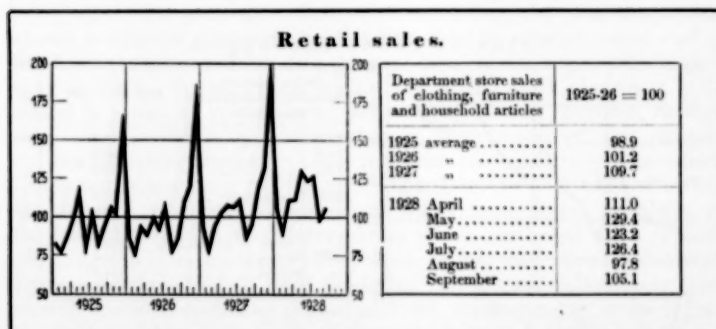
Value of goods exchanged.



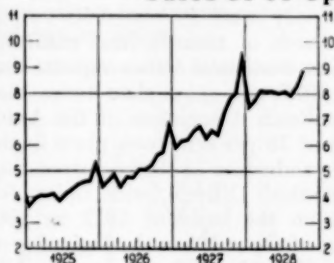
Index numbers, estimated from turnover tax returns	1925-27 = 100
1925 average	93.1
1926 "	96.6
1927 "	110.2
1927 First quarter	100.9
Second "	105.2
Third "	112.0
Fourth "	122.9
1928 First "	113.6
Second "	114.3
Third "	120.1



Most of the figures for retail trade and consumption are available only up to the end of September, 1928. At that time the sales of department stores as well as the per capita sales at the co-operative stores were running higher than in the corresponding period of 1927. Aside from the usual seasonal fluctuations, these series have indicated a further increase in the purchasing power of the people. Price changes no doubt account for some part of the increase in the reichsmark amount of sales, but, after making due allowance for the moderate price increase, it appears that there has been a considerable rise in the volume of goods sold or an increase in quality, or both. The four series of figures showing the consumption of sugar, meat, tobacco and beer are based upon physical volume, and no price correction need therefore be made. These also show that on the whole the volume of consumption has continued at or somewhat above the level of last year. The index numbers for tobacco consumption are based upon tax returns; the diagram therefore illustrates the amounts withdrawn from bond rather than amounts consumed within the periods indicated.

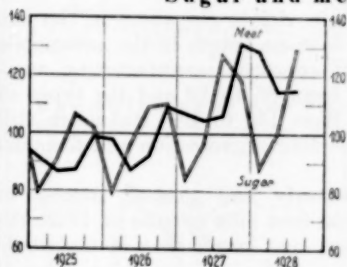


Sales of co-operative stores.



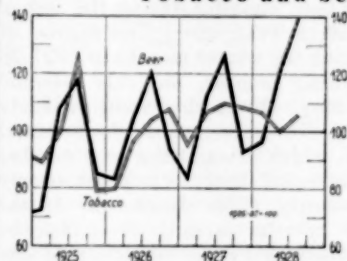
Weekly average sales per member	Reichsmarks
1925 average	4.26
1926 "	5.11
1927 "	6.94
1928 April	8.09
May	8.11
June	8.02
July	8.10
August	7.95
September	8.30
October	8.89

Sugar and meat consumption.



Quarterly index numbers based on volume (average for 1925-27 = 100)	Sugar	Meat
1925 average	94.6	91.1
1926 "	98.7	96.8
1927 "	106.7	112.1
1927 First quarter	84.3	106.8
Second "	96.5	104.4
Third "	127.3	106.0
Fourth "	118.5	131.4
1928 First "	87.9	128.4
Second "	100.3	114.6
Third "	129.6	114.9

Tobacco and beer consumption.



Quarterly index numbers based on volume (average for 1925-27 = 100)	Tobacco	Beer
1925 average	98.5	95.8
1926 "	96.7	100.3
1927 "	104.9	103.9
1927 First quarter	95.1	83.5
Second "	106.4	112.2
Third "	109.6	127.2
Fourth "	108.2	92.7
1928 First "	106.6	96.0
Second "	100.0	121.5
Third "	105.6	139.9

The importance of the automobile trade in Germany has developed rapidly in the last three years. The number of motor vehicle registrations has more than doubled, and if allowance is made for replacements, the new vehicles sold within that period far exceed the increase in registrations. It is to be noted, however, that motor-cycles still account for nearly half of the total.

Motor vehicles registered in Germany (In thousands)	Motor cycles	Passenger cars	Trucks, omnibuses, etc.	Total
1925, July 1	162	171	93	426
1926, "	263	202	107	572
1927, "	339	261	124	724
1928, "	438	343	152	933

The cumulative increase in the number of motor vehicles shown in the foregoing table reflects a rapid development of the German automobile industry which has not only much increased its output but has improved its technical methods of manufacture, resulting in lower costs and lower prices. The Statistical Office reports that the production of automobiles in 1927 was more than twice that during 1926, and, according to the Reich Association of the Automobile Industry, a further increase of 36 per cent took place in the first eight months of 1928 over the production in the corresponding months of 1927. The Reich Statistical Office's price index for passenger automobiles shows that on the basis of 1913 as 100, prices declined from an index figure of about 125 at the beginning of 1924 to about 63 in August, 1928. The price index for automobile trucks declined from about 100 at the beginning of 1924 to about 66 in August, 1928.

The tendency toward consolidation visible elsewhere in German industry has already been carried to some length in the automobile trade. Since 1924 the number of concerns manufacturing automobiles in Germany has declined from 86 to 19 and the types of passenger cars have been reduced from 146 to 40. But much still remains to be done by way of perfecting organization and financial administration in the industry.

German manufacturers have latterly had greater success in selling passenger cars abroad; in the first nine months of 1928, the number of cars exported was 50 per cent larger than in the whole of 1927.

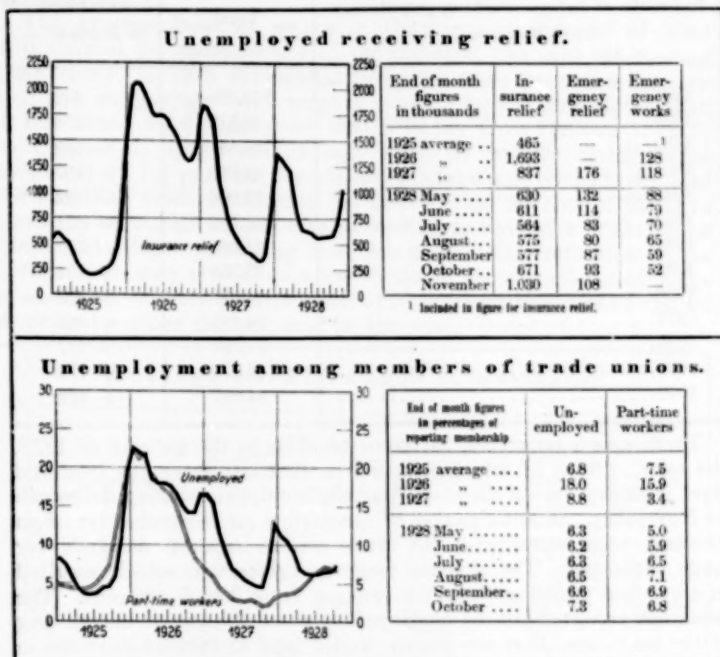
c. Labor.

Unemployment in Germany has been running during the second half of 1928 somewhat higher than a year ago. The degree of unemployment which prevailed during the winter months of 1927-28 diminished rapidly during the spring months, but this seasonal decline came to an abrupt stop in May. From then until the early autumn there was little change, but in November, mainly for seasonal reasons, there was a rapid increase, which brought the total number of the unemployed on the various relief lists to a point nearly 400,000 higher than a year previously. The dimensions of the seasonal increase for the winter months cannot, of course, be foretold, but it is bound to be influenced by the considerable size of the present volume of unemployment.

The increase in unemployment has been fairly widely distributed. Practically all of the larger trade unions reported unemployment figures at the end of October which were higher than a year before, with the exception of the foodstuffs and transport unions in which the number of unemployed stood substantially unchanged. The principal increases occurred in the textile and building unions.

It should be observed in connection with the following diagram and table that the figures for the number of unemployed receiving relief are not fully comparable from one year to the next because of the numerous changes which have taken place in the bases for granting assistance. The operation of the present unemployment insurance law, which went into effect on October 1, 1927, has itself

passed through more or less modification which has materially broadened its scope. Accordingly, the figures even over short periods are not fully comparable and should be taken as illustrating tendencies only.



The increase in unemployment as compared with a year ago does not indicate a decline in employment. On the contrary, the number of workers actually employed in Germany at the end of November was apparently about the same as a year before. The annual increase in the working population at present is estimated at over 400,000, which is about the same as the increase in unemployment since the end of November, 1927. The annual growth in the working population, which reflects the high birth-rate in Germany in the years immediately before the war, has been a complicating factor throughout the difficult period of adjustment since stabilization, and at times it has much intensified the problem of unemployment, already difficult enough on other accounts. A complication of an opposite sort is likely to manifest itself after 1930, when the decline in births during the war years will have its effects. According to estimates prepared by the Institut für Konjunkturforschung, the annual increase in the working population will amount in 1931 to only 107,000, and for the three years thereafter the number of new workers will fall short of the number released on account of old age and disability. In other words, for a period of three years there will be a decline averaging over 100,000 annually in the total number of available workers. This opens up

a whole field of speculation, not only on the score of relief from insistent unemployment problems, but as to the further economies in the use of hand labor which may be encouraged.

Estimate of future working population (In thousands)	Total	Increase + or decrease —
1928.....	33,136	+ 432
1929.....	33,512	+ 376
1930.....	33,881	+ 369
1931.....	33,988	+ 107
1932.....	33,906	— 82
1933.....	33,785	— 121
1934.....	33,668	— 117
1935.....	33,769	+ 101
1936.....	34,099	+ 330
1937.....	34,485	+ 386
1938.....	34,702	+ 217
1939.....	34,875	+ 173
1940.....	34,997	+ 122

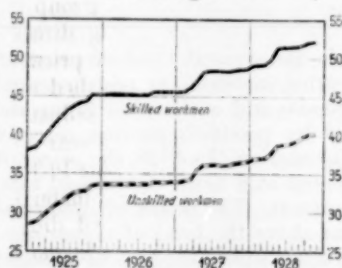
There was a recurrence of labor troubles in the autumn of 1928, the most serious of which resulted in shutting down the iron and steel industry in the Rhenish-Westphalian district during the month of November. In anticipation of the expiry on November 1st of an existing wage agreement, the trade unions entered demands for wage increases. The dispute went to arbitration which resulted in an award granting increases ranging from 3 to 5 per cent. The workmen accepted but the employers rejected the award, announcing at the same time that acceptance would lead to further increases in the prices for steel and iron products. Under the existing German law the Minister of Labor is qualified to declare such a disputed award binding in case he deems it equitable to both parties and its execution on economic and social grounds necessary. In this case the award was declared binding on October 31, 1928, but the employers contested its validity and announced the dismissal of their workmen to the number of 200,000 on November 1st. Before the question of the validity of the award reached the highest court competent to decide it, the workers and employers agreed to abide by the decision of the Reich Minister of the Interior on the merits of the whole controversy. Pending the announcement of his decision plants were opened and work was resumed on December 3rd-4th. In substance, this controversy tended to raise an issue as to the merits in the long run of the arbitral procedure provided by existing law, particularly in view of the fact that the wage increases allowed in this way have frequently been followed directly by increases in the prices of the commodities concerned and have thus been promptly passed on to the consumer.

The decision of the Minister of the Interior was made public on December 21st. Among certain groups of workers wage increases were granted up to six pfennigs an hour for the lowest paid, and provision was also made for certain reductions in working hours.

Aside from the decisions on these points, the award was noteworthy because it questioned the existing arbitral procedure on the ground that "the parties are all too much inclined to avoid coming to agreements if these agreements cannot be reached without mutual concessions".

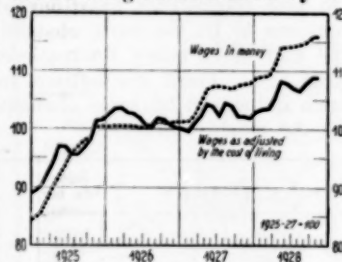
The average level of wages in Germany at the end of 1924 still showed the consequences of the inflation. In each intervening year except in 1926 substantial increases have been obtained, so that now the average tariff wage is roughly 40 per cent higher than at that time. In the last year, that is to say from October 1, 1927, to October 1, 1928, the average level of weekly tariff wages increased by 7.8 per cent for skilled workers and by 10.6 per cent for unskilled workers. During the same period the cost of living in Germany increased 1.3 per cent, according to the index of the Reich Statistical Office. Assuming that this gives a fair reflection of the outlays workmen are called upon to make, the so-called real wage of unskilled workers has increased by about 9 per cent and of skilled workers by about 6.5 per cent in the year.

Average weekly wages in Germany.



First of month figures in reichsmarks	Skilled workmen	Unskilled workmen
1925 average....	42.14	31.31
1926 "	45.29	33.69
1927 "	47.58	35.64
1928 May	51.31	38.75
June	51.40	38.85
July	51.42	38.86
August	51.53	39.26
September ..	51.71	39.82
October	52.10	40.17
November ...	52.15	40.21

Real wages and money wages for skilled workmen.

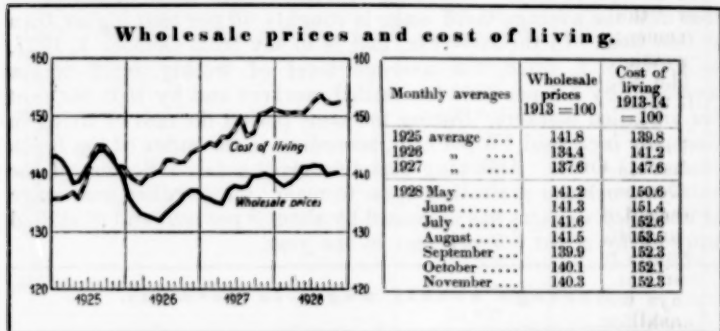


Average for 1925-27 = 100	Money wages	Wages as adjusted by the cost of living
1925 average.....	93.6	95.7
1926 "	100.6	101.9
1927 "	105.7	102.4
1928 May	114.0	108.2
June	114.2	107.8
July	114.3	107.0
August	114.5	106.6
September ..	114.9	107.8
October	115.8	108.8
November ...	115.9	108.8

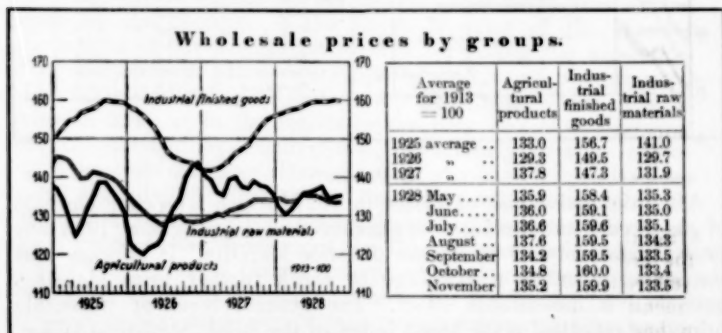
f. Prices.

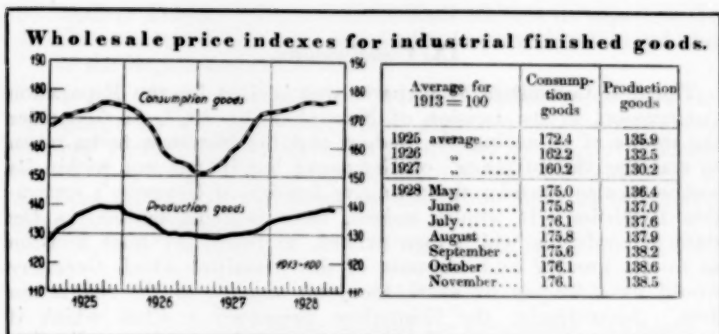
After the active rise of prices in 1927, which was characteristic of the credit and business expansion then in progress, 1928 has proved relatively to be a year of price stability. It appears that the measures taken a year ago to check further price increases have had a measurable effect. The general level of wholesale prices, as reflected in the broad index of the Reich Statistical Office,

is only fractionally above the level reached at the end of 1927. The Statistical Office's index for the cost of living, which naturally has followed rather tardily the movements of the wholesale index, stood in August, 1928, at the highest point since stabilization. Since then it has fallen slightly, but the decline is apparently due entirely to a reduction in the prices of foodstuffs following the harvesting of new crops.

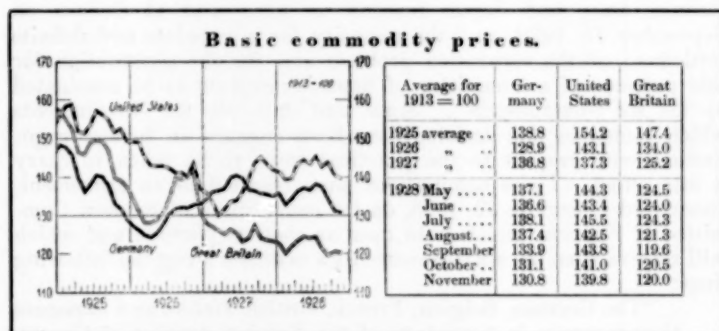


It will be recalled that the rise in the general level of prices in 1927 represented almost entirely price increases in one principal group, that of industrial finished goods; and within that group the dominating influence was exercised by products passing directly into consumption without further fabrication. In 1928, the prices of such commodities still rose slightly, but at a much diminished rate, and latterly they have remained constant. The prices of industrial raw materials stand on the whole at about the level of a year ago, but it is interesting to observe, from figures published by the Institut für Konjunkturforschung, that prices of industrial raw materials controlled by cartels and syndicates have moved upward during the year, whereas products open to free competition have moved downward. Agricultural prices continue to be the most unstable of the three principal price groups and after many fluctuations are now somewhat lower than a year ago. These fluctuations in agricultural prices are of course much influenced by price changes of basic agricultural commodities in the world markets.





The following indexes compare the price movements of basic commodities in Germany, Great Britain and the United States. Each index covers 20 commodities which are not identical in the three countries, but which have been selected because of their basic importance in each of them. The index for Germany was prepared by the Economic Service of the Transfer Committee and those for the other two countries by the Federal Reserve Bank of New York. They all show price changes on the basis of the 1913 average and accordingly indicate tendencies only. They do not compare in terms of money the prices prevailing in the three countries. It is noteworthy that during the past twelve or fourteen months the movements of the three indexes have closely paralleled each other. Prior to that time the movements were frequently in contrary directions due to special forces operating within the individual countries. The frequent fluctuations in all three indexes are usually to be accounted for by agricultural prices which are subject to broad variation within short periods.



IX. Conclusions.

The first Committee of Experts was invited by the Reparation Commission, in its decision of November 30, 1923, to "consider the means of balancing the budget and the measures to be taken to stabilise the currency" of Germany; but it was not within its competence to consider the definitive fixation of Germany's reparation liabilities. It would, indeed, have been impossible, in the state of confusion which then existed, to reach any final decision as to the number and amounts of the Annuities which Germany would have to pay or as to the total amount of the reparation debt. Accordingly, the Committee presented a Plan which it described as providing a "settlement extending in its application for a sufficient time to restore confidence", and as being so framed as to permit a final and comprehensive agreement "as soon as circumstances make this possible".

This Report, with those which have preceded it, presents the record of what has been accomplished during the four years in which the Experts' Plan has been in operation. Fundamentally, confidence has been restored, and Germany has been re-established as a going concern on a relatively high level of economic activity. From the very outset, moreover, the Plan has realized its primary object, by securing the expected reparation payments and transfers to the creditor Powers. But the fact that there was still no final determination of Germany's reparation liabilities has left an element of uncertainty in the Plan itself and in the affairs of all the countries concerned in reparations; and it has become increasingly clear that a final settlement of the problem, to be achieved by mutual agreement, would be in the best interests of the creditor Powers and of Germany alike.

A decisive step has now been taken in this direction. Representatives of the Governments of Germany, Belgium, France, Great Britain, Italy and Japan reached an agreement at Geneva on September 16, 1928, on "the necessity for a complete and definite settlement of the reparation problem and for the constitution for this purpose of a committee of financial experts to be nominated by the six Governments". Since that date, the six Governments which joined in this decision have been engaged in further negotiations with respect to the practical steps to be taken to carry it into effect. These negotiations have resulted in an agreement, announced December 22, 1928, on the constitution of the new Committee of Experts, which is to meet as soon as possible and which will receive from the six Governments a mandate along the following lines:

"The German, Belgian, French, British, Italian and Japanese Governments, in pursuance of the decision reached at Geneva on September 16, 1928, whereby it was agreed to set up a committee of independent financial experts, hereby entrust to the committee the task of drawing up proposals for a complete and final settlement of the reparation problem; these proposals shall provide for a settlement of the obligations resulting from the existing Treaties and agreements between Germany and the

creditor Powers. The committee shall address its report to the Governments which took part in the Geneva decision and also to the Reparation Commission."

The new Experts' Committee, in other words, is to draw up "proposals for a complete and final settlement of the reparation problem", and it is thus expressly empowered by the Governments concerned to consider the fundamental problem still remaining to be solved, and to carry to its logical conclusion the work of the first Committee of Experts.

Respectfully,

S. PARKER GILBERT,

Agent General for Reparation Payments.

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Exhibit I.

**Composition
of the
German Annuity under the Experts' Plan¹.**
(In Millions of Gold Marks)

<div> <div>1928-29 and thereafter "Standard Year"</div> </div>				
<div> <div> <div>Composition of the German Annuity under the Experts' Plan¹. (In Millions of Gold Marks)</div> </div> </div>				
<div> <div>1924-25</div> <div> <div>German External Loan 1924 800</div> <div>Interest on the German Railway Bonds 200</div> </div> </div>	<div> <div>1925-26</div> <div> <div>Budget 250</div> <div>Transport Tax 250</div> <div>Interest on the German Industrial Debentures 125</div> <div>Interest on the German Railway Bonds 595</div> </div> </div>	<div> <div>1926-27</div> <div> <div>Supplementary Budget Contribution 300</div> <div>Budget 110</div> <div>Transport Tax 290</div> <div>Interest on the German Industrial Debentures 250</div> <div>Interest on the German Railway Bonds 550</div> </div> </div>	<div> <div>1927-28</div> <div> <div>Budget 500</div> <div>Transport Tax 290</div> <div>Interest and Amortisation on the German Industrial Debentures 300</div> <div>Interest and Amortisation on the German Railway Bonds 660</div> </div> </div>	<div> <div>Budget 1,250</div> <div>Transport Tax 290</div> <div>Interest and Amortisation on the German Industrial Debentures 300</div> <div>Interest and Amortisation on the German Railway Bonds 660</div> </div>
1,000	1,250	1,500	1,750	2,500 ³

¹ The Annuity year runs from September 1st to August 31st.

² The Plan fixed the third Annuity at 1,200 million gold marks. It provided, however, for two contingent supplementary contributions, payable from the German budget in the fourth and fifth Annuity years, amounting altogether to 500 million gold marks. By agreement between the Reparation Commission and the German Government, the two contingent supplementary contributions were replaced by a single definite payment of 300 million gold marks, made during the third Annuity year.

³ Subject to increase as from 1929-30 onwards, depending on the index of prosperity described in the Plan.

Exhibit II.
Final Distribution of Second Annuity — Showing Shares of the Respective Powers. ^a
(In thousands of gold marks.)

	Army Costs		Belgian War Debt	Restitution	American Mixed Claims	Reparation	Total Share
	Arrears	Current					
1. France	10,628	105,833	21,464	5,738	—	440,951	584,614 ^b
2. British Empire	8,018	25,000	18,431	129	—	189,095	240,673
3. Italy	—	—	—	111	—	85,952	86,063
4. Belgium	—	20,843	6,877	2,869	—	74,761	105,350 ^b
5. Serb-Croat-Slovene State	—	—	—	92	—	42,976	43,068
6. United States of America	—	—	—	—	19,784	—	19,784
7. Rumania	—	—	—	249	—	9,455	9,704
8. Japan	—	—	—	—	—	6,447	6,447
9. Portugal	—	—	—	—	—	6,447	6,447
10. Greece	—	—	—	—	—	3,438	3,438
11. Poland	—	—	—	166	—	—	166
Totals	18,646	151,676	46,772	9,354	19,784	859,522	1,105,754
Interest earned and gain in exchange included in the above distribution							
							3,157
Service of German External Loan							1,102,597
Cost of Inter-Allied Commissions							92,234
Discount on Railway Interest							17,759
Total of Second Annuity							7,410
							1,220,000

^a Subject only to a possible minor modification in the distribution of the amount allocated to restitution.

^b These figures give effect to an agreement between the Belgian and French Governments whereby a portion of the total share accruing to the latter, and amounting to 6,000,000 gold marks, has been made available to the former.

Exhibit III.
Revised Distribution of Third Annuity — Showing Shares of the Respective Powers.
(In thousands of gold marks.)

	Army Costs		Belgian War Debt	Restitution	American Mixed Claims	Reparation	Total Share
	Arrears	Current					
1. France.....	10,687	100,000	27,089	7,241	—	602,758	747,775
2. British Empire.....	8,063	24,525	23,262	163	—	253,910	309,923
3. Italy.....	—	—	—	140	—	97,616 ^b	97,756
4. Belgium.....	—	15,000	8,678	3,621	—	48,815 ^a	76,114
5. Serb-Croat-Slovene State.....	—	—	—	116	—	48,804 ^b	48,920
6. United States of America.....	55,000	—	—	—	24,969	—	79,969
7. Rumania.....	—	—	—	315	—	11,981	12,296
8. Japan.....	—	—	—	—	—	8,299	8,299
9. Portugal.....	—	—	—	—	—	8,250	8,250
10. Greece.....	—	—	—	—	—	4,344	4,344
11. Poland.....	—	—	—	210	—	—	210
Totals.....	73,750	139,525	59,029	11,806	24,969	1,084,777	1,393,856
Interest earned (less loss in exchange) included in the above distribution....							2,283
Service of German External Loan....							1,391,573
Costs of Inter-Allied Commissions....							91,328
Discount on Railway Interest.....							10,618
Total of Third Annuity....							6,481
							1,500,000

^a In accordance with Articles 6 B and C of the Finance Ministers' Agreement of January 14, 1925, the reparation share of Belgium has been reduced by 3.5 per cent and the amount thus released has been allocated to France and the British Empire in the proportion of 53: 22.

^b In accordance with Article 20 of the Finance Ministers' Agreement of January 14, 1925, a deduction of 10 per cent has been made from the total shares of Italy and Serbia. The sums thus rendered available have been distributed among the Powers in arrears on the basis of the provisional percentages notified by the Reparation Commission.

Exhibit IV.
Revised Distribution of Fourth Annuity—Showing Shares of the Respective Powers.
(In thousands of gold marks.)

	Army Costs		Belgian War Debt	Restitution	American Mixed Claims	Reparation	Total Share
	Arrears	Current					
1. France.....	17,100	97,219	32,836	8,777	—	730,638	886,570
2. British Empire.....	12,900	20,016	28,196	198	—	307,779	369,089
3. Italy.....	—	—	—	170	—	118,325 ^b	118,495
4. Belgium.....	—	12,619	10,520	4,389	—	59,171 ^a	86,699
5. Serb-Croat-Slovene State.....	—	—	—	141	—	59,158 ^b	59,299
6. United States of America.....	55,000	—	—	—	30,207	—	85,267
7. Rumania.....	—	—	—	382	—	14,523	14,905
8. Japan.....	—	—	—	—	—	10,060	10,060
9. Portugal.....	—	—	—	—	—	10,000	10,000
10. Greece.....	—	—	—	—	—	5,266	5,266
11. Poland.....	—	—	—	254	—	—	254
Totals.....	85,000	129,854	71,552	14,311	30,267	1,314,920	1,645,904
Interest received (less loss in exchange) included in the above distribution							3,296
Service of German External Loan							1,642,638
Costs of Inter-Allied Commissions							90,550
Discount on Service of Railway Bonds and Industrial Debentures							9,935
Total of Fourth Annuity							6,877
							1,750,000

^a In accordance with Articles 6 B and C of the Finance Ministers' Agreement of January 14, 1925, the reparation share of Belgium has been reduced by 3.5 per cent and the amount thus released has been allocated to France and the British Empire in the proportion of 2:1.

^b In accordance with Article 20 of the Finance Ministers' Agreement of January 14, 1925, a deduction of 10 per cent has been made from the total shares of Italy and Serbia. The sums thus rendered available have been distributed among the Powers in arrears on the basis of the provisional percentages notified by the Reparation Commission.

Exhibit V.
Approximate Distribution of Fifth Annuity—Showing Shares of the Respective Powers.
(In thousands of gold marks.)

	Army Costs		Belgian War Debt	Restitution	American Mixed Claims	Reparation	Total Share
	Arrears	Current					
1. France.....	17,100	95,093	50,034	22,524	—	1,105,651	1,290,402
2. British Empire.....	12,900	19,620	42,964	508	—	465,750	541,742
3. Italy.....	—	—	—	435	—	179,037 ^b	179,472
4. Belgium.....	—	11,346	16,029	11,263	—	89,540 ^a	128,178
5. Serb-Croat-Slovene State.....	—	—	—	362	—	89,504 ^b	89,866
6. United States of America.....	55,000	—	—	—	45,000	—	100,000
7. Rumania.....	—	—	—	980	—	21,977	22,957
8. Japan.....	—	—	—	—	—	15,223	15,223
9. Portugal.....	—	—	—	—	—	15,133	15,133
10. Greece.....	—	—	—	—	—	7,968	7,968
11. Poland.....	—	—	—	653	—	—	653
Totals	85,000	126,059	109,027	36,725	45,000	1,989,783	2,391,594
					Service of German External Loan		89,500
					Costs of Inter-Allied Commissions		10,835
					Discount on Service of Railway Bonds		8,071
					Total of Fifth Annuity		2,500,000

^a In accordance with Articles 6 B and C of the Finance Ministers' Agreement of January 14, 1925, the reparation share of Belgium has been reduced by 3.5 per cent and the amount thus released has been allocated to France and the British Empire in the proportion of 52:22.

^b In accordance with Article 20 of the Finance Ministers' Agreement of January 14, 1925, a deduction of 10 per cent has been made from the total shares of Italy and Serbia. The sums thus rendered available have been distributed among the Powers in arrears on the basis of the provisional percentages notified by the Reparation Commission.

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Balance Sheet of the Agent General for

Assets	Gold Marks
I. Bank balances and other funds available upon demand valued at the fine gold rate	189,488,944.86
II. Annuity funds accrued but not due	79,174,000.—
III. Advance payments. —Advances to Trustees of German External Loan 1924 in respect of service of the loan chargeable to the Fifth Annuity	5,437,764.22
IV. Interest accrued	640,779.09
<div data-bbox="784 1415 1030 1446" data-label="Text"> <p><i>Total</i> 274,741,488.17</p> </div>	

We have audited the above balance sheet and certify that it is in accordance with the liabilities of the Agent General for Reparation Payments at August 31, 1928.

Berlin, October 18, 1928.

bit VI.

Reparation Payments — August 31, 1928.

Liabilities	Gold Marks	Gold Marks
V. Accounts payable:		
(a) Reparation Recovery Acts—including balances owing to German exporters calculated from certificates of collections given by French and British Governments.....	3,062,035.63	
(b) Deliveries of coal, coke and lignite (including transport)—based on information furnished by the Reparation Commission Office for Deliveries in Kind or by the National Representatives	11,333,455.58	
(c) Deliveries of chemical fertilisers and nitrogenous products	8,441,967.05	
(d) Deliveries of coal by-products	180,451.79	
(e) Deliveries of refractory earths	32,896.39	
(f) Deliveries of agricultural products	28,781.51	
(g) Deliveries of timber	290,752.—	
(h) Deliveries of sugar	150,835.52	
(i) Miscellaneous deliveries	53,805,242.35	77,326,417.82
VI. Allied and Associated Powers—funds allocated and uncovered by payments or accounts payable, calculated on the basis of the schedules of distribution of the Annuities as provisionally adopted by the Reparation Commission:		
	Funds committed under approved contracts	Funds uncommitted
(a) France.....	68,330,896.56	14,393,950.32
(b) British Empire.....	—	6,102,118.91
(c) Italy	885,154.41	7,855,310.24
(d) Belgium	5,840,310.79	19,883.86
(e) Serb-Croat-Slovene State ..	5,918,558.90	628,601.10
(f) United States of America ..	—	69,552.67
(g) Rumania	1,206,954.—	81,254.82
(h) Japan	905,087.49	2,480,762.45
(i) Portugal	24,998.—	2,213.14
(j) Greece	85,010.—	973,008.12
(k) Poland.....	—	7,208.16
	83,196,970.15	32,613,863.79
		115,810,833.94
VII. Funds unallocated:		
(a) Annuity funds not available for allocation ...	79,173,333.33	
(b) Appropriations for Prior Charges not required for that purpose	600,331.77	
(c) Interest earned and difference in exchange	1,830,571.31	81,604,236.41
Total		274,741,488.17

ance with the books and in our opinion correctly sets forth the assets and

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**Statement showing Receipts and Payments of
for the Fourth
(September 1, 1927,**

Receipts	Gold Marks
I. In completion of Third Annuity:	
(a) <i>Transport Tax</i>	20,000,000.—
(b) <i>Railway Reparation Bonds</i> — Interest received from German Railway Company	55,000,000.—
II. On account of Fourth Annuity:	
(a) <i>Budgetary Contribution</i>	500,000,000.—
(b) <i>Transport Tax</i>	265,826,000.—
(c) <i>Railway Reparation Bonds</i> — Interest and amortisation received from German Railway Company	605,000,000.—
(d) <i>Industrial Debentures</i> — Interest and amortisation received from Bank for Industrial Debentures	300,000,000.—
III. Interest received	4,315,456.11
IV. Gain in exchange	250,429.73
<i>Total receipts</i>	1,750,391,885.84
V. Bank balances and other funds available upon demand at Sep- tember 1, 1927	185,487,192.84
<i>Carried forward</i>	1,935,879,078.68

bit VII.

**the Agent General for Reparation Payments
Annuity Year.**

to August 31, 1928.)

Payments	Gold Marks	Gold Marks
VI. Allied and Associated Powers:		
<i>(a) France:</i>		
1. Marks supplied to army of occupation	23,530,728.22	
2. Furnishings to army under Arts. 8—12 of Rhineland Agreement	18,869,362.76	
3. Furnishings in the Ruhr	8,248,679.26	
4. Reparation Recovery Act	53,488,600.45	
5. Deliveries of coal, coke and lignite (including transport)	176,618,098.85	
6. Deliveries of dyestuffs and pharmaceutical products	6,652,538.—	
7. Deliveries of chemical fertilisers and nitro- genous products	37,601,599.71	
8. Deliveries of coal by-products	8,020,835.02	
9. Deliveries of refractory earths	425,050.36	
10. Deliveries of agricultural products	28,611,227.39	
11. Deliveries of timber	14,616,247.27	
12. Deliveries of sugar	19,874,994.44	
13. Miscellaneous deliveries	185,318,943.56	
14. Miscellaneous payments	900,000.—	
15. Cash transfers in foreign currencies	279,720,810.37	862,497,715.66
<i>(b) British Empire:</i>		
1. Marks supplied to army of occupation	10,161,738.87	
2. Furnishings to army under Arts. 8—12 of Rhineland Agreement	2,715,478.62	
3. Reparation Recovery Act	297,498,001.81	
4. Cash transfers:		
(i) Settlement of balances owing for deliveries made or services rendered by Germany prior to September 1, 1924	7,509,395.05	
(ii) In foreign currencies	49,164,868.92	367,049,483.27
<i>(c) Italy:</i>		
1. Deliveries of coal and coke (including transport)	69,636,826.01	
2. Deliveries of dyestuffs and pharmaceutical products	3,926,054.66	
3. Deliveries of coal by-products	4,593,396.05	
4. Deliveries of agricultural products	4,832.90	
5. Miscellaneous deliveries	2,005,105.83	
6. Miscellaneous payments	998.31	
7. Cash transfers in foreign currencies	39,335,705.09	119,502,918.85
<i>Carried forward....</i>		1,349,050,117.78

(Continued).

the Agent General for Reparation Payments
Annuity Year.
to August 31, 1928.)

Payments	Gold Marks	Gold Marks
<i>Brought forward</i>		1,349,050,117.78
<i>(d) Belgium:</i>		
1. Marks supplied to army of occupation ..	325,180.02	
2. Furnishings to army under Arts. 8—12 of Rhineland Agreement	2,006,644.04	
3. Furnishings in the Ruhr	Dr. 179,257.58	
4. Deliveries of coal and coke (including transport)	25,254,471.77	
5. Deliveries of dyestuffs and pharmaceutical products	8,014,840.71	
6. Deliveries of chemical fertilisers and nitrogenous products	13,214,668.32	
7. Deliveries of coal by-products	3,519,585.77	
8. Deliveries of refractory earths	5,479.61	
9. Deliveries of agricultural products	149,531.02	
10. Deliveries of timber	256,839.11	
11. Miscellaneous deliveries	38,210,164.29	
12. Cash transfers in foreign currencies ..	17,782,182.89	108,560,329.97
<i>(e) Serb-Croat-Slovene State:</i>		
1. Deliveries of pharmaceutical products	321,486.00	
2. Miscellaneous deliveries	43,076,983.35	
3. Miscellaneous payments	297,453.81	
4. Cash transfers in foreign currencies	14,844,058.58	58,539,981.83
<i>(f) United States of America:</i>		
1. Deliveries under agreement	30,163,566.83	
2. Cash transfers in foreign currencies	55,000,000.—	85,163,566.83
<i>(g) Rumania:</i>		
1. Miscellaneous deliveries	15,225,825.39	
2. Miscellaneous payments	34,070.21	
3. Cash transfers in foreign currencies	130,488.81	15,390,384.41
<i>(h) Japan:</i>		
1. Miscellaneous deliveries	5,758,406.57	
2. Cash transfers in foreign currencies	3,336,748.31	9,095,154.88
<i>(i) Portugal:</i>		
1. Miscellaneous deliveries	9,282,010.44	
2. Cash transfers in foreign currencies	778,265.46	10,060,275.90
<i>(j) Greece:</i>		
1. Miscellaneous deliveries	4,069,111.55	
2. Cash transfers in foreign currencies	287,301.25	4,356,412.80
<i>Carried forward</i>		1,640,216,224.40

(Continued).

**the Agent General for Reparation Payments
Annuity Year.**

to August 31, 1928.)

Payments	Gold Marks	Gold Marks
<i>Brought forward</i>		1,640,216,224.40
<i>(k) Poland:</i>		
1. Deliveries of agricultural products	270,897.06	
2. Miscellaneous payments.....	6,202.09	
3. Cash transfers:		
<i>(i) Settlement of balances owing for deliveries made or services rendered by Germany prior to September 1, 1924</i>	2,191.88	
<i>(ii) In foreign currencies</i>	24,827.87	304,118.90
<i>Total in respect of Powers</i>		1,640,520,343.30
VII. Service of German External Loan 1924		90,491,098.29
VIII. Inter-Allied Commissions:		
1. Reparation Commission	2,633,182.57	
2. Office for Reparation Payments.....	3,700,000.—	
3. Inter-Allied Rhineland High Commission	1,898,637.88	8,231,820.45
IX. Costs of arbitral bodies		53,933.37
X. Discount on amounts received in advance of due date:		
1. From German Railway Company	6,764,264.88	
2. From Bank for Industrial Debentures...	328,673.53	7,092,938.41
<i>Total payments</i>		1,746,390,133.82
XI. Bank balances and other funds available upon demand at August 31, 1928		189,488,944.86
<i>Total</i>		1,935,879,078.68

Payments from September 1, 1927, to August 31, 1928, and certify that the above the receipts and payments during the Fourth Annuity Year.

Price, Waterhouse & Co.

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Distribution among the Powers of Amounts available
(September 1, 1927,

	Amounts available September 1, 1927, to August 31, 1928	Total payments September 1, 1927, to August 31, 1928
	Gold Marks	Gold Marks
1. France	1,014,558,765.59	862,497,715.66
2. British Empire	373,246,090.49	367,049,483.27
3. Italy	133,005,901.28	119,502,918.85
4. Belgium	115,396,274.13	108,560,329.97
5. Serb-Croat-Slovene State	67,178,910.58	58,539,981.83
6. United States of America	85,233,119.50	85,163,566.83
7. Rumania	16,678,593.23	15,390,384.41
8. Japan	12,546,695.24	9,095,154.88
9. Portugal	10,087,487.04	10,060,275.90
10. Greece	5,414,430.92	4,356,412.80
11. Poland	311,327.06	304,118.90
<i>Totals in respect of Powers</i>	1,833,657,595.06	1,640,520,343.30
12. Service of German External Loan 1924	85,030,330.90	90,491,098.29
13. Inter-Allied Commissions:		
(a) Reparation Commission	2,664,798.64	2,633,182.57
(b) Office for Reparation Payments	3,700,000.—	3,700,000.—
(c) Inter-Allied Rhineland High Commission	2,544,399.23	1,898,637.88
14. Costs of arbitral bodies	—	53,933.37
15. Discount on amounts received in advance of due date:		
(a) From German Railway Company ..	6,764,389.21	6,764,264.88
(b) From Bank for Industrial Debentures	328,440.09	328,673.53
<i>Funds unallocated:</i>	1,934,689,953.13	1,746,390,133.82
(a) Annuity funds not available for allocation	79,173,333.33	—
(b) Incidental items:		
1. Interest received	659,665.62	}
2. Interest accrued	640,779.09	
3. Gain in exchange	530,126.60	
<i>Totals</i>	2,015,693,857.77	1,746,390,133.82
The foregoing total is made up as follows:		
(a) Third Annuity—balance unexpended at September 1, 1927:		
1. Bank balances and other funds available upon demand	185,487,192.84	
2. Annuity funds accrued but not due	75,000,000.—	
3. Interest accrued	110,262.60	
(b) Fourth Annuity:		
1. Total Annuity	1,750,000,000.—	
2. Interest earned	4,845,972.60	
3. Gain in exchange	250,429.73	
<i>Total as above</i>	2,015,693,857.77	

bit VIII.

for Expenditure during the Fourth Annuity Year.

to August 31, 1928.)

Accounts payable at August 31, 1928	Total payments and accounts payable at August 31, 1928	Powers' Balances at August 31, 1928 (per Balance Sheet)		
		Funds allocated and uncovered by payments or accounts payable		Funds unallocated
		Funds committed under approved contracts	Funds uncommitted	
Gold Marks	Gold Marks	Gold Marks	Gold Marks	Gold Marks
69,336,203.05	931,833,918.71	68,330,896.56	14,393,950.32	—
94,488.31	367,143,971.58	—	6,102,118.91	—
4,762,517.78	124,265,436.63	885,154.41	7,855,310.24	—
975,749.51	109,536,079.48	5,840,310.79	19,883.86	—
2,091,768.75	60,631,750.58	5,918,558.90	628,601.10	—
—	85,163,566.83	—	69,552.67	—
—	15,390,384.41	1,206,954.—	81,254.82	—
65,690.42	9,160,845.30	905,087.49	2,480,762.45	—
—	10,060,275.90	24,998.—	2,213.14	—
—	4,356,412.80	85,010.—	973,008.12	—
—	304,118.90	—	7,208.16	—
77,326,417.82	1,717,846,761.12	83,196,970.15	32,613,863.79	—
Cr. 5,437,764.22	85,053,334.07	—	—	Dr. 23,003.17
—	2,633,182.57	—	—	31,616.07
—	3,700,000.—	—	—	—
—	1,898,637.88	—	—	645,761.35
—	53,933.37	—	—	Dr. 53,933.37
—	6,764,264.88	—	—	124.33
—	328,673.53	—	—	Dr. 233.44
Dr. 77,326,417.82	1,818,278,787.42	83,196,970.15	32,613,863.79	600,331.77
Cr. 5,437,764.22	—	—	—	79,173,333.33
—	—	—	—	1,300,444.71
—	—	—	—	530,126.60
Dr. 77,326,417.82	1,818,278,787.42	83,196,970.15	32,613,863.79	81,604,236.41
Cr. 5,437,764.22	—	—	—	—

Exhibit IX.

**Analysis of Payments and Accounts Payable for the
Period September 1, 1927, to August 31, 1928,
according to Category of Expenditure.**

	Total payments Sept. 1, 1927, to August 31, 1928	Accounts payable at August 31, 1928	Total payments and accounts payable at August 31, 1928
	Gold Marks	Gold Marks	Gold Marks
1. Marks supplied to armies of occupation:			
France	23,530,728.22	—	23,530,728.22
British Empire	10,161,738.87	—	10,161,738.87
Belgium	325,180.02	—	325,180.02
	34,017,647.11	—	34,017,647.11
2. Furnishings to armies under Arts. 8—12 of Rhineland Agreement:			
France	18,869,362.76	—	18,869,362.76
British Empire	2,715,478.62	—	2,715,478.62
Belgium	2,006,644.04	—	2,006,644.04
	23,591,485.42	—	23,591,485.42
3. Furnishings in the Ruhr:			
France	8,248,679.26	—	8,248,679.26
Belgium	Cr. 179,257.58	—	Cr. 179,257.58
	8,069,421.68	—	8,069,421.68
4. Reparation Recovery Acts:			
France	53,488,600.45	2,967,547.32	56,456,147.77
British Empire	297,498,001.81	94,488.31	297,592,490.12
	350,986,602.26	3,062,035.63	354,048,637.89
5. Deliveries of coal, coke and lignite (including transport):			
France	176,618,098.85	6,620,090.57	183,238,189.42
Italy	69,636,826.01	4,713,365.01	74,350,191.02
Belgium	25,254,471.77	—	25,254,471.77
	271,509,396.63	11,333,455.58	282,842,852.21
<i>Totals carried forward ...</i>	688,174,553.10	14,395,491.21	702,570,044.31

	Total payments Sept. 1, 1927, to August 31, 1928	Accounts payable at August 31, 1928	Total payments and accounts payable at August 31, 1928
	Gold Marks	Gold Marks	Gold Marks
<i>Totals brought forward...</i>	688,174,553.10	14,395,491.21	702,570,044.31
6. Deliveries of dyestuffs and pharmaceutical products:			
France	6,652,538.—	—	6,652,538.—
Italy	3,926,054.66	—	3,926,054.66
Belgium	8,014,840.71	—	8,014,840.71
Serb-Croat-Slovene State	321,486.09	—	321,486.09
	18,914,919.46	—	18,914,919.46
7. Deliveries of chemical fertilisers and nitrogenous products:			
France	37,601,599.71	8,439,727.80	46,041,327.51
Belgium	13,214,668.32	2,239.25	13,216,907.57
	50,816,268.03	8,441,967.05	59,258,235.08
8. Deliveries of coal by- products:			
France	8,020,835.02	108,537.07	8,129,372.09
Italy	4,593,396.05	48,475.36	4,641,871.41
Belgium	3,519,585.77	23,439.36	3,543,025.13
	16,133,816.84	180,451.79	16,314,268.63
9. Deliveries of refractory earths:			
France	425,050.36	32,896.39	457,946.75
Belgium	5,479.61	—	5,479.61
	430,529.97	32,896.39	463,426.36
10. Deliveries of agricul- tural products:			
France	28,611,227.39	28,781.51	28,640,008.90
Italy	4,832.90	—	4,832.90
Belgium	149,531.02	—	149,531.02
Poland	270,897.06	—	270,897.06
	29,036,488.37	28,781.51	29,065,269.88
11. Deliveries of timber:			
France	14,616,247.27	290,752.—	14,906,999.27
Belgium	256,839.11	—	256,839.11
	14,873,086.38	290,752.—	15,163,838.38
12. Deliveries of sugar:			
France	19,874,994.44	150,835.52	20,025,829.96
<i>Totals carried forward...</i>	838,254,656.59	23,521,175.47	861,775,832.06

	Total payments Sept. 1, 1927, to August 31, 1928	Accounts payable at August 31, 1928	Total payments and accounts payable at August 31, 1928
	Gold Marks	Gold Marks	Gold Marks
<i>Totals brought forward . .</i>	838,254,656.59	23,521,175.47	861,775,832.06
13. Miscellaneous deliveries:			
France	185,318,943.56	50,697,034.87	236,015,978.43
Italy.....	2,005,105.83	677.41	2,005,783.24
Belgium.....	38,210,164.29	950,070.90	39,160,235.19
Serb-Croat-Slovene State	43,076,983.35	2,091,768.75	45,168,752.10
Rumania	15,225,825.39	—	15,225,825.39
Japan	5,758,406.57	65,690.42	5,824,096.99
Portugal	9,282,010.44	—	9,282,010.44
Greece	4,069,111.55	—	4,069,111.55
	302,946,550.98	53,805,242.35	356,751,793.33
14. Deliveries under agree- ment:			
United States of America	30,163,566.83	—	30,163,566.83
15. Miscellaneous payments:			
France	900,000.—	—	900,000.—
Italy	998.31	—	998.31
Serb-Croat-Slovene State	297,453.81	—	297,453.81
Rumania	34,070.21	—	34,070.21
Poland	6,202.09	—	6,202.09
	1,238,724.42	—	1,238,724.42
16. Cash transfers:			
(a) Settlement of balances owing for deliveries made or services rendered by Germany prior to Sep- tember 1, 1924:			
British Empire	7,509,395.05	—	7,509,395.05
Poland	2,191.88	—	2,191.88
(b) In foreign currencies:			
France	279,720,810.37	—	279,720,810.37
British Empire	49,164,868.92	—	49,164,868.92
Italy	39,335,705.09	—	39,335,705.09
Belgium	17,782,182.89	—	17,782,182.89
Serb - Croat - Slovene State	14,844,058.58	—	14,844,058.58
United States of America.....	55,000,000.—	—	55,000,000.—
Rumania	130,488.81	—	130,488.81
Japan.....	3,336,748.31	—	3,336,748.31
Portugal	778,265.46	—	778,265.46
Greece	287,301.25	—	287,301.25
Poland.....	24,827.87	—	24,827.87
	467,916,844.48	—	467,916,844.48
<i>Totals in respect of Powers . .</i>	1,640,520,343.30	77,326,417.82	1,717,846,761.12

Exhibit X.

Summary of Personnel, November 30, 1928.

	Nationality						Total
	American	French	British	Italian	Belgian	Dutch	
The Agent General for Reparation Payments	1	—	—	—	—	—	
Assistants and Staff.....	2	—	—	—	—	—	3
The Commissioner of the Reichsbank.....	—	—	—	—	—	1	
Assistants and Staff.....	—	—	—	—	—	4	5
The Commissioner for the German Railways	—	1	—	—	—	—	
Assistants and Staff.....	—	6	—	1	1	—	9
The Commissioner of Controlled Revenues..	—	—	1	—	—	—	
Assistants and Staff.....	—	1	3	—	1	—	6
The Trustee for the German Railway Bonds	—	—	—	—	1	—	1
The Trustee for the German Industrial De-							
bentures	—	—	—	1	—	—	
Director of Office and Staff	—	—	—	4	—	—	5
The Transfer Committee	2	1	1	1	1	—	
Economic Advisers	—	1	—	1	1	—	
Other Staff.....	1	6	1	1	—	—	17 ²
Finance Director.....	1	—	—	—	—	—	1
Paris Office	—	—	—	—	—	—	
Secretary and Staff.....	3	1	1	—	—	—	5
Administrative Services:							
Secretary and Staff	—	—	2	—	1	—	3
Chief Accountant and Staff.....	2	6	9	2	2	—	21
Translators	—	3	5	—	—	—	8
Private Secretaries, Registry and Filing Staff,							
Clerks, Stenographers, and Typists....	5	8	27	—	—	—	40
Total Personnel ¹	16 ²	34	50	11	8	5	124 ²
Of which the salaries and the costs are chargeable against:							
The Annuity							110
The Reichsbank							5
The German Railways							9
							124
¹ Exclusive of German minor staff employed for upkeep of building, messenger service, etc. ² Total adjusted to avoid duplication within groups. Berlin Office address: 33 Luisenstrasse. Paris Office address: 18, rue de Tilsitt.							

Exhibit XI.
German External Loan 1924
Condition as of October 15, 1928, on Completion of Fourth Loan Year

Tranche	Nominal value of bonds outstanding as of October 15, 1927	Nominal value of bonds redeemed by purchase or drawn for redemption since October 15, 1927		Nominal value of bonds outstanding as of October 15, 1928
		Drawn	Purchased ¹	
American	\$ 96,295,300	\$ 4,377,000	\$ 23,000	\$ 91,895,300
British	£ 11,387,200	£ 232,400		£ 11,154,800
Belgian	£ 1,422,300	£ 29,100		£ 1,393,200
Dutch	£ 2,372,000	£ 48,400		£ 2,323,600
French	£ 2,845,200	£ 58,100		£ 2,787,100
German	£ 303,700	£ 6,200		£ 297,500
Italian	Lire 94,533,000	Lire 1,549,500	Lire 401,500	Lire 92,582,000
Swedish	S. Kr. 23,920,000	S. Kr. 488,000		S. Kr. 23,432,000
Swiss	£ 2,239,000	£ 45,700		£ 2,193,300
Swiss	S. Frs. 14,236,000	S. Frs. 290,000		S. Frs. 13,946,000

¹ The gold mark equivalent of the currencies representing the capital saving through redemption by purchase amounts to 3,177.73 gold marks, converted as of October 15, 1928.

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